San Diego City Employees’ Retirement System
San Diego, California

A Defined Benefit Pension Plan for
Employees of the City of San Diego, the Unified Port of San Diego,
and the San Diego County Regional Airport Authority.

Comprehensive Annual
Financial Report
For the Fiscal Year Ended June 30, 2008

The San Diego City Employees’ Retirement System’s (SDCERS) mission is to
deliver accurate and timely benefits to its members, retirees and beneficiaries
and ensure the Trust Fund’s safety, integrity and growth.

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www.sdcers.org
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1. Introduction
December 17, 2008

To the Members, Retirees, Beneficiaries, Plan Sponsors, Trustees and Audit Committee of the San Diego City Employees’ Retirement System:

I am pleased to present the San Diego City Employees’ Retirement System’s Comprehensive Annual Financial Report (CAFR) and accompanying Operations Summary for the fiscal year ended June 30, 2008 (FY 2008).

Fiscal year 2008 was a year of many significant achievements for SDCERS.

**Actuarial Improvements.** In January 2008, SDCERS’ actuary, Cheiron, issued its June 30, 2007 Actuarial Valuations for our three plan sponsors. The 2007 Valuations include the apportionment of SDCERS’ Trust Fund assets among plan sponsors based on individual cash flows attributable to each plan sponsor; the full recognition and funding of certain liabilities that had been considered “contingent” in nature; the use of a more widely-accepted asset smoothing method; the proper treatment of certain disability payments; and the proper treatment of benefit payments made in excess of Internal Revenue Code section 415. In addition, the Board voted to return to the Entry Age Normal (EAN) actuarial funding method effective with the June 30, 2007 actuarial valuation. EAN replaces the less widely-accepted Projected Unit Credit (PUC) funding method used since 1992.

**Audit Committee and Internal Audit.** SDCERS has established an independent Audit Committee to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, the audit process and compliance with laws, regulations and internal policies and procedures. Three non-Trustee San Diego citizens, Marilyn Brown, Michael Collins and Armon Kamesar, comprise the majority of the five-member Audit Committee, making it truly independent. Mr. Kamesar recently completed his term as Committee Chair, and he was succeeded by Mr. Collins. At its October meeting, the Board reappointed Mr. Kamesar to a four-year term on the Committee. SDCERS is extremely fortunate to have these three talented and experienced financial professionals serving on this important Committee.

In August 2007, the Audit Committee selected Bob Wilson to be SDCERS’ first full-time Internal Auditor. As Internal Auditor, Bob reports directly to the Audit Committee to ensure that position is independent from SDCERS management. Bob, who joined SDCERS in 2005 as Assistant Administrator after serving 27 years in the City’s Auditor and Comptroller Department, is one of the most experienced auditors in the public pension arena. He has been a great asset to the Audit Committee and SDCERS. With an independent Audit Committee and Internal Auditor, SDCERS’ audit structure is more independent and less influenced by management than most publicly-traded companies.

**Group Trust Created.** In March 2007, the Board adopted a Group Trust to ensure the assets of our three plan sponsors are separated from each other consistent with the City Charter and Municipal Code. The Group Trust provides that each sponsor’s plan will be administered as a separate trust, and each plan sponsor has entered into a Participation and Administration Agreement with SDCERS that establishes the terms under which SDCERS administers their retirement plan. These Agreements were approved by the San Diego City Council, as required by the City Charter, in February 2008.

**Investment Results.** SDCERS’ total investment return for FY 2008 was -4.66% compared to 16.5% for FY 2007. As of June 30, 2008, SDCERS’ annualized total investment return was +7.78% over the past three years, +10.77% over the past five years, and +7.96% over the past ten years.

As should be no surprise, the current turmoil in the global financial markets has impacted SDCERS’ investments just as it has every other institutional and individual investor. However, it is important to keep in mind during these times that SDCERS invests for the very long term. For example, we invest contributions for a newly-hired employee who might work for thirty years until 2038 and then, when they retire, we may pay them for
thirty years (until 2068) based on their life expectancy. If they leave a spousal continuance, a portion of their retirement payment could continue for another ten years to 2078. As a result, SDCERS’ investment philosophy and strategy is focused on long-term results. Short-term market dislocations - even those as severe as what we are experiencing today - are, in relation to SDCERS’ time horizon, just that: short-term. Our long-standing, disciplined strategy of a well-balanced portfolio has and will continue to work over the long haul.

Finally, the market downturn since July 1, 2008 reflects just over one quarter of SDCERS’ four-quarter fiscal 2009 year. Only when all four fiscal quarters have been concluded, on June 30, 2009, will the impact of the current market condition be known.

Because of the long-term nature of SDCERS’ obligations and investment strategies, overreaction to short-term results can lead to emotional or irrational investment decisions. SDCERS has never, and should never, manage its portfolio for the short term. Indeed, because recent declines in SDCERS’ equity portfolio have pushed those asset levels below our investment targets for equities, SDCERS has rebalanced the portfolio by buying equities.

SDCERS’ target and actual asset allocation, as of June 30, 2008 and June 30, 2007, and recent and long-term investment performance are all included in the Investment Section.

Organizational Improvements. SDCERS’ management team and staff are capable and experienced, and they have accomplished a great deal during the year. Important recent additions to SDCERS’ management team include Mark Hovey, our Chief Financial Officer, and Cynthia Queen, our Member Services Director. Cynthia replaced Rebecca Wilson, SDCERS’ first Member Services Division Director, who was promoted to Chief of Staff. Another important staff move was the promotion of Elaine Reagan as General Counsel. Elaine replaced Christopher Waddell who served SDCERS with distinction but chose to return to Sacramento to rejoin his family full-time.

To maintain the Investment Division’s long-term record of performance, we have added two investment professionals to the group: Liza Crisafi as Deputy Chief Investment Officer and Corey BuuHoan as an Investment Officer. In addition, Jamie Hamrick was promoted to Investment Officer. With four Investment professionals, assisted by Christina Tamayo, SDCERS has a well-trained and experienced group managing our investment portfolio.

Tax Compliance Confirmed. In December 2007, the Board unanimously approved a Compliance Statement with the Internal Revenue Service that resolved all of SDCERS’ outstanding IRS issues. SDCERS had proactively entered the Internal Revenue Service’s Voluntary Correction Program in July 2005 after conducting a comprehensive review of plan operations to identify any areas of non-compliance with federal tax law.

Following receipt of the Compliance Statement, SDCERS received a favorable IRS Determination Letter in January 2008 confirming SDCERS’ status as a tax-qualified plan. Governmental pension plans, like SDCERS, are not required to have a Determination Letter, and not many have one that is current. SDCERS’ Determination Letter positively affirms that the plan complies with IRS rules. This is important because it confirms for SDCERS’ members and plan sponsors that contributions made to SDCERS may be made on a pre-tax basis and investment earnings made by SDCERS on those contributions can grow tax-free.

New Office Space. SDCERS opened for business in our new space at 401 West A Street on July 30, 2007. The move, which concluded a thorough and detailed process, was completed on time and under budget. The new space is very functional and “member friendly” and will result in significant cost savings.

Audited Financial Statements. The financial statements included in this CAFR have been prepared by SDCERS’ management, which is responsible for the integrity and fairness of the data presented, including the many amounts that must be based on estimates and judgments. The accounting policies followed in preparation of these financial statements conform to accounting principles generally accepted in the United States of America. The basic financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB). All the financial information presented is consistent with these financial statements. GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management’s Discussion and Analysis (MD&A). This Transmittal Letter complements the MD&A, which follows the report of the independent auditors, and should be read in conjunction with it.
**Introductory Section**

**Internal Controls.** SDCERS has established a framework of internal controls to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and the financial statements are reliable. In addition, our Internal Auditor reviews our internal controls and operations and he reports regularly to the Audit Committee. The SDCERS Audit Committee reviews the audit findings and recommendations for improvement in internal control and the actions of management to implement these recommendations.

**Organization of the CAFR.** This CAFR, which is available upon request and on-line at www.sdcers.org, is divided into five sections:

- The **Introductory Section** contains Transmittal Letters and organizational information.
- The **Financial Section** presents the Independent Auditors’ Report prepared by Macias Gini & O’Connell, MD&A, audited financial statements for FY 2008 and FY 2007, and other financial and operational information.
- The **Investment Section** contains SDCERS’ Investment Consultant’s Statement, prepared by Callan Associates, SDCERS’ asset class investment returns, a list of SDCERS’ external investment management firms, SDCERS’ statement of investment objectives and policies, graphs and schedules depicting asset allocation and asset diversification, and ten years of historical investment performance and asset holdings information.
- The **Actuarial Section** includes SDCERS’ Actuary’s Certification Letter, prepared by Cheiron, and supporting schedules and information that pertain to SDCERS’ participants and benefits.
- The **Statistical Section** contains schedules of comparative data related to SDCERS’ revenues and expenses, active and inactive members and retirees, average monthly retirement benefits, and a list of participating plan sponsors.

**Acknowledgments.** I would like to express my personal appreciation to our Trustees and Audit Committee members who, without compensation, have provided the leadership, direction and support that have made all of our recent achievements possible. Our plan sponsors, members, and the citizens of our community have been well served by their stewardship of SDCERS.

Raymond Ellis and Mark Oemcke, our two newest Trustees, were appointed by the Mayor, confirmed by the City Council and sworn in as Trustees at the Board’s October 2008 meeting. Both bring great financial experience and energy to the Board. Trustee George Murray’s last meeting was in October. Refusing to abandon his post until his successor was sworn in, George served for an additional 19 months after his term expired. He served with great distinction, and we all will miss his wisdom, judgment and humor very much.

Finally, I would like to thank my SDCERS colleagues. Each one works hard and takes very seriously their role in providing for the financial security of our members, retirees and beneficiaries. While it is fashionable in some circles to belittle public employees, SDCERS’ staff is dedicated and committed to ensure the System’s success. Their individual efforts, combined with those of a great group of professionals and investment managers, inspires me each day.

As I have said many times, SDCERS has accomplished more over the past few years than any other public pension system in the country. If you doubt it, please read the “Progress Report on the San Diego City Employees’ Retirement System” on our website. These achievements, many of which are noted above, are due to the leadership of our Trustees, the hard work of SDCERS’ employees and the support of our members, retirees and beneficiaries.

It is a pleasure and an honor to work with and serve you as SDCERS’ Administrator and CEO.

Respectfully submitted,

David B. Wescoe
Administrator/CEO
San Diego City Employees’ Retirement System
Board of Administration
As of June 30, 2008

Board of Administration

Thomas C. Hebrank, President  Steven W. Meyer
Mayoral Appointee  Elected General Member

Mark C. Sullivan, Vice-President  George A. Murray
Elected Safety (Police) Member  Mayoral Appointee

Susan S. Gonick  Peter E. Prevoilos
Mayoral Appointee  Mayoral Appointee

David A. Hall  Jo Anne SawyerKnoll
Elected Retiree  Ex-Officio, Mayoral Designee

V. Wayne Kennedy  William J. Sheffler
Mayoral Appointee  Mayoral Appointee

Franklin R. Lamberth  John G. Thomson
Elected General Member  Elected Safety (Fire) Member

Vacant  Mayoral Appointee
San Diego City Employees’ Retirement System
Board of Administration Committees
As of June 30, 2008

In addition to regular Board duties, SDCERS Trustees also participate in one or more standing committees that review policies and procedures related to various areas of SDCERS’ administration, report their findings and make recommendations to SDCERS’ Board. The composition and responsibilities of the standing committees as of June 30, 2008 were as follows:

**Audit Committee**

<table>
<thead>
<tr>
<th>Chair</th>
<th>Responsibilities</th>
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<tbody>
<tr>
<td>Armon Kamesar</td>
<td>Responsible for providing oversight of financial reporting process; the system of internal controls; and the independent audit process.</td>
</tr>
<tr>
<td>Marilyn Crenson Brown</td>
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<tr>
<td>H. Michael Collins</td>
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<tr>
<td>Thomas C. Hebrank</td>
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<tr>
<td>Steven W. Meyer</td>
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**Business and Governance Committee**

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<tr>
<th>Chair</th>
<th>Responsibilities</th>
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<tr>
<td>Mark C. Sullivan</td>
<td>Responsible for reviewing SDCERS’ business and procedures; reviewing actuarial valuations; reviewing the annual budget; developing Board rules; and facilitating training programs for Board members.</td>
</tr>
<tr>
<td>Susan S. Gonick</td>
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<tr>
<td>Thomas C. Hebrank</td>
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<tr>
<td>V. Wayne Kennedy</td>
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<tr>
<td>Jo Anne SawyerKnoll</td>
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<td>John G. Thomson</td>
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**Disability Committee**

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<tr>
<th>Chair</th>
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<tr>
<td>William J. Sheffler</td>
<td>Responsible for reviewing staff recommendations on disability applications; recommending to the Board final decisions on adjudicator findings with regard to disability retirement applications; and making recommendations for changes to the disability retirement process.</td>
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<tr>
<td>David A. Hall</td>
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<tr>
<td>Thomas C. Hebrank</td>
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<tr>
<td>Franklin R. Lamberth</td>
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<td>Peter E. Preovolos</td>
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<td>John G. Thomson</td>
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**Executive Committee**

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<tr>
<th>Chair</th>
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<tr>
<td>Thomas C. Hebrank</td>
<td>Responsible for reviewing Board agendas; and developing the performance plan and evaluating the performance of the Administrator/CEO and the Chief Compliance Officer.</td>
</tr>
<tr>
<td>Steven W. Meyer</td>
<td></td>
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<tr>
<td>William J. Sheffler</td>
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<tr>
<td>Mark C. Sullivan</td>
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**Investment Committee**

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<tr>
<th>Chair</th>
<th>Responsibilities</th>
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<tbody>
<tr>
<td>Steven W. Meyer</td>
<td>Responsible for monitoring investment performance; and recommending changes to the Investment Policy Statement.</td>
</tr>
<tr>
<td>Susan S. Gonick</td>
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<tr>
<td>Thomas C. Hebrank</td>
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<tr>
<td>George A. Murray</td>
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<tr>
<td>William J. Sheffler</td>
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San Diego City Employees’ Retirement System
Organization Chart
As of June 30, 2008
December 17, 2008

Dear SDCERS Constituents:

Most of us know the ancient Chinese blessing/curse “May you live in interesting times”. I think few of us have lived it the way SDCERS has.

The past several years have been filled with many accomplishments – an increased funding ratio, resolution of tax compliance issues, adopting good governance practices, and organizational improvements, just to name a few. I had a conversation with a San Diego city official recently, who remarked that with problems recently experienced at other city agencies, SDCERS is now the organization that is held up as the example of “best practices” in corporate governance. I dared to say we were on the verge of accomplishing one of our primary goals – a return to normalcy. No more scandal, no more headlines, no more endless litigation…..

Then along came the global market downturn to fulfill the prophecy. While SDCERS has no real exposure to hedge funds, derivatives or the subprime collapse, we are not immune to the global marketplace, and we are experiencing market losses just like everyone else. There are a few important points to remember, however. First and foremost, we have a long-term investment time horizon of forty years or longer. SDCERS’ investment portfolio is well-diversified over different asset classes and follows a disciplined investment process. We have more than sufficient assets and liquidity to continue to pay benefits well into the future, and our beneficiaries need not worry about receiving their benefits. And with the actuarial principles the Board has adopted, the inherent volatility of the marketplace is “smoothed” over time which minimizes the corresponding fluctuations in plan sponsor annual required contributions.

So, as we move forward, we will continue our progress toward normalcy by continuing to overcome the challenges that confront us. SDCERS is an organization that is more professional, responsive, transparent, and cutting-edge than ever before. We pledge to continue this progress with the goal of providing the best service that we can for our members.

Sincerely,

Thomas C. Hebrank
President, SDCERS Board of Administration
San Diego City Employees’ Retirement System
Professional Services
As of June 30, 2008

Actuary
Cheiron
McLean, VA

Consulting and Professional Services

JPI Printing Inc.
San Diego, CA

Levi, Ray & Shoup
Springfield, IL

Linea Solutions
Los Angeles, CA

EMC Corporation
Chicago, IL

National Direct Mailing Corporation
Poway, CA

San Diego Data Processing Corporation
San Diego, CA

Custodian
State Street Bank & Trust Company
Alameda, CA

Independent Auditor
Macias Gini & O’Connell LLP
Certified Public Accountants
San Diego, CA

Investment Consultant
Callan Associates
San Francisco, CA

Real Estate Consultant
The Townsend Group
San Francisco, CA

SDCERS’ medical and legal service providers are identified in Other Supplementary Information in the Financial Section. SDCERS’ investment managers are identified in the Investment Section.
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2. Financial
INDEPENDENT AUDITOR’S REPORT

To the Board of Retirement of the
San Diego City Employees’ Retirement System
San Diego, California

We have audited the accompanying statements of fiduciary net assets of the Group Trust of the San Diego City Employees’ Retirement System (SDCERS), a component unit of the City of San Diego, as of June 30, 2008 and 2007, and the related statements of changes in fiduciary net assets for the years then ended. We have also audited the accompanying statement of fiduciary net assets of the Preservation of Benefits agency fund of SDCERS as of June 30, 2008 and the related statement of changes in fiduciary assets and liabilities for the year then ended. These financial statements are the responsibility of SDCERS’ management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDCERS’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Group Trust of the San Diego City Employees’ Retirement System as of June 30, 2008 and 2007, the fiduciary net assets of the Preservation of Benefits agency fund as of June 30, 2008, and the changes in fiduciary net assets of the Group Trust for the years ended June 30, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, certain errors resulting in a misstatement of previously reported net assets as of June 30, 2007, as well as amounts reported for the year ended June 30, 2008, were discovered by SDCERS’ management during the current year. Accordingly, the June 30, 2007 and 2008 financial statements have been restated to correct the errors.

As discussed in Note 1 to the financial statements, effective July 1, 2007, SDCERS adopted a Declaration of Group Trust and accordingly, is presenting separate financial statements for each plan covered under the Group Trust in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25.
As also described further in Note 1, SDCERS also adopted the provisions of GASB Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27*, during the year ended June 30, 2008.

As discussed in Notes 10 and 11 to the financial statements, SDCERS is involved in several lawsuits and claims. The ultimate outcome of these matters cannot presently be determined. However, management asserts that the outcome will not have a material adverse effect on the financial condition of SDCERS.

As discussed in Note 6 to the financial statements, the June 30, 2007 actuarial valuations for each plan sponsor reflect several changes in the actuarial methodologies. Further, the funded status presented in Note 6 and based on the most recent actuarial valuation, SDCERS' independent actuaries determined that, at June 30, 2007, the value of the City of San Diego’s Defined Benefit Pension Plan’s actuarial accrued obligation exceeded the actuarial value of its assets by $1.18 billion.

The global financial markets have experienced significant volatility. As a result, the fair value of SDCERS' investments has declined since June 30, 2008, as described in Note 11 to the financial statements.

The Management’s Discussion and Analysis on pages 14 through 21, the Schedules of Funding Progress on pages 67 through 72 and the Schedules of Plan Sponsors’ Contributions on pages 73 through 76 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The other supplementary information in the financial section and the introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Certified Public Accountants

San Diego, California
December 15, 2008, except for Note 12,
as to which the date is February 19, 2009
Management’s Discussion and Analysis

Management’s Discussion and Analysis (MD&A) provides an overview and analysis of SDCERS’ financial condition for the fiscal years ended June 30, 2008 (FY 2008) and June 30, 2007 (FY 2007), with results also compared to the fiscal year ended June 30, 2006 (FY 2006).

SDCERS’ funding objective is to meet long-term benefit obligations through plan sponsor and member contributions and earnings on invested assets. SDCERS has three plan sponsors: the City of San Diego (City), the Unified Port of San Diego (Port), and the San Diego County Regional Airport Authority (Airport).

The SDCERS Board of Administration adopted a Declaration of Group Trust, effective July 1, 2007. Under the Group Trust, the City, Port, and Airport Authority’s plans are treated as separate plans, with assets of each sponsor’s plan pooled for investment purposes only. Separate financial statements for 2008 only are presented in this CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan. In addition, the discussion and analysis compares financial information between 2008 and 2007 for the total of all three plans, rather than the separate plans, as the information for each separate plan is not available for 2007. See Note 1. Summary of Significant Accounting Policies for more details on the Group Trust.

Financial Highlights

As of June 30, 2008, the SDCERS Group Trust had $4.385 billion in total net assets held in trust for the payment of pension benefits compared to total net assets of $4.682 billion at June 30, 2007. This represents a $297 million decrease (-6.3%) from FY 2007. The FY 2008 decrease reflects plan sponsor and member contributions ($251 million), offset by net investment losses ($251 million) and benefit payments and administrative expenses ($297 million). In FY 2007, SDCERS experienced a $668 million increase (16.6%) in total net assets from FY 2006 total net assets of $4.014 billion.

For FY 2008, contributions were offset by investment losses, resulting in net additions of $(0.2) million to the Group Trust net assets, a decrease of $946.1 million (100%) from FY 2007 additions of $945.9 million. Decreased net investment earnings of $941.2 million were the main factor in the reduction from last year. In FY 2007, SDCERS experienced an increase of $123.9 million (15.1%) in additions over FY 2006 additions of $822.1 million.

As of June 30, 2008, deductions from Group Trust net assets for benefits and expenses totaled $296.7 million, an $18.7 million increase (6.7%), compared to FY 2007 deductions of $278.0 million. In FY 2007, SDCERS deductions increased $18.0 million (6.9%) from FY 2006 deductions of $260.0 million.

Actuarial valuations are performed for each plan sponsor annually as of June 30th and are presented to the SDCERS’ Board of Administration (Board) for approval. Dividing the Actuarial Value of Assets (AVA) by the Actuarial Accrued Liabilities (AAL) results in a funded ratio that is one measure of a pension plan’s funded status. An Unfunded Actuarial Liability (UAL) results when the AVA is less than the AAL. Changes in funded status can be caused by increases or decreases in the AVA or AAL, resulting in actuarial gains and losses. The actuarial valuation as of June 30, 2008 for all three plan sponsors was received on December 11, 2008. See Note 11. Subsequent Events for additional information.
The June 30, 2007 Actuarial Valuations were based on the same actuarial assumptions used in the June 30, 2006 Actuarial Valuations but reflect a number of methodology changes adopted by the Board in September and October 2006. These methodology changes included the following:

- The return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN), from the Projected Unit Credit (PUC) actuarial funding method;
- A 20-year amortization period for the pay down of the June 30, 2007 UAL (City only). The June 30, 2006 Actuarial Valuation for the City used a 27-year amortization period that was required to be used through the 2006 Valuation pursuant to the Gleason judgment (see Note 10. Legal Action – Gleason, et al. v. SDCERS);
- To avoid any “negative amortization” of the UAL, the plan sponsors are to pay the full interest on the UAL plus the Normal Cost;
- The use of the Expected Value of Assets asset smoothing method; and
- The removal of all liabilities for future payments that are projected to be in excess of the maximum benefit level payable from a tax qualified retirement plan under Internal Revenue Code Section 415. (In the 2006 Valuation, only liabilities for then active members in excess of Section 415 were removed.)

As of June 30, 2007, the City’s funded status, calculated pursuant to the EAN actuarial funding method, was 78.8%. This means that for every dollar of benefits due the City had approximately 78.8 cents in actuarial assets available for payment.

As of June 30, 2007, the Port’s funded status under EAN was 93.5%; for every dollar of benefits due, the Port had approximately 93.5 cents in actuarial assets available for payment.

As of June 30, 2007, the Airport’s funded status under EAN was 109.0%; for every dollar of benefits due, the Airport had approximately $1.09 in actuarial assets available for payment.

In September 2008, the Board approved demographic and economic actuarial assumption changes as outlined in the actuary’s Experience Study presented to the Board in July 2008. The revised assumptions will be incorporated into the June 30, 2008 Actuarial Valuation. Highlights of the assumption changes are discussed in more detail in Note 6. Funded Status and Actuarial Methods and Assumptions.

Ten years of historical funded status information for the City and the Port and six valuation periods for the Airport are set out in the Required Supplementary Information with associated commentary located in the Notes to the Schedules of Funding Progress. Additional information is presented in Note 6. Funded Status and Actuarial Methods and Assumptions, and in the Actuarial Section. The Actuarial Valuations can be found online at sdcers.org.

As discussed in Note 10. Legal Action and Note 11. Subsequent Events, SDCERS is involved in a number of litigation matters. SDCERS’ management does not believe that the outcome of any of them will have a material adverse impact on SDCERS’ financial condition.
Overview of Financial Statements

SDCERS’ audited financial statements are comprised of the following five items:

1. Statements of Plan Net Assets;
2. Statements of Changes in Plan Net Assets;
3. Notes to the Financial Statements;
4. Required Supplementary Information; and
5. Other Supplementary Information - Supporting Schedules.

The Statements of Plan Net Assets is a balance sheet presentation of assets and liabilities for the Group Trust. It discloses the assets available for future payments of benefits to retirees and beneficiaries and current liabilities that are owed as of June 30, 2008 and June 30, 2007. As of July 1, 2007, the City, Port and Airport plans have been separated into independent, qualified, single employer governmental defined benefit plans and trusts. Accordingly, the proportional interest of each plan and trust are accounted for separately, as presented in this year’s Statements of Plan Net Assets.

The Statements of Changes in Plan Net Assets provide an income statement presentation of annual additions to and deductions from plan assets for the Group Trust for the FY 2008 and 2007, respectively. The FY 2008 Statement also presents separate reporting for the City, Port, and Airport, as does the Statement of Plan Net Assets.

Both Statements comply with Governmental Accounting Standards Board (GASB) Statement Nos. 3, 5, 25, 28, 31, 40 and 50 that require certain disclosures and the use of the full accrual method of accounting.

Both Statements were prepared using the accrual basis of accounting and report information about SDCERS’ financial activities, including all assets and liabilities. All investment gains and losses are shown on a trade-date basis using market and appraised values, and all capital assets are depreciated over their useful lives.

The Notes to the Financial Statements provide additional information essential to a full understanding of the data presented in the audited financial statements. This section provides a quantitative and qualitative basis for assessing SDCERS’ financial condition. Note 1. Summary of Significant Accounting Policies, provides information on the assumptions and methods used in the presentation of SDCERS’ financial statements. It provides for the basis for accounting treatment of stated values under Generally Accepted Accounting Principles (GAAP) and accounting practices used that are unique to a public employee retirement system.

The Required Supplementary Information provides information concerning plan sponsors’ progress in funding their benefit obligations. It also contains the Schedules of Plan Sponsors’ Contributions and Notes that accompany each of these schedules.

The Other Supplementary Information - Supporting Schedules includes a Budgetary Comparison Schedule, a Schedule of Administrative Expenses, a Schedule of Payments to Consultants, and a Schedule of Fees Paid to Investment Professionals. All Supporting Schedules are included after the Required Supplementary Information.

SDCERS’ management is responsible for the accuracy, completeness, and fair presentation of this information and all disclosures.

Financial Analysis

Tables 1 through 4 below summarize and compare SDCERS’ financial results for the current and prior fiscal years for the Group Trust.

The Group Trust’s net assets held in trust for the payment of defined benefit pension benefits as of June 30, 2008 totaled $4.385 billion, a $296.9 million decrease (-6.3%) compared to net assets of $4.682 billion as
of June 30, 2007. Investment returns of -4.66% for the year accounted for the decline in net assets. FY 2007 plan net assets were 16.6% higher than FY 2006 net assets of $4.014 billion. All net assets are available to meet SDCERS' ongoing retirement and disability payment obligations to retirees and beneficiaries. A comparative summary is set out in Table 1 as follows.

Table 1: Group Trust Net Assets

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$506,522,453</td>
<td>$528,285,188</td>
<td>($21,762,735)</td>
<td>-4.1%</td>
<td>$528,285,188</td>
<td>$493,192,881</td>
<td>$35,092,307</td>
<td>7.1%</td>
</tr>
<tr>
<td>Receivables</td>
<td>34,620,230</td>
<td>40,003,580</td>
<td>(5,383,350)</td>
<td>-13.5%</td>
<td>40,003,580</td>
<td>43,230,846</td>
<td>(3,227,266)</td>
<td>-7.5%</td>
</tr>
<tr>
<td>Securities Sold</td>
<td>100,068,286</td>
<td>79,153,778</td>
<td>20,914,508</td>
<td>26.4%</td>
<td>79,153,778</td>
<td>48,576,193</td>
<td>30,577,585</td>
<td>63.0%</td>
</tr>
<tr>
<td>Investments, at Fair Value</td>
<td>4,311,901,688</td>
<td>4,402,945,236</td>
<td>(91,043,548)</td>
<td>-2.1%</td>
<td>4,402,945,236</td>
<td>3,826,865,975</td>
<td>576,079,261</td>
<td>15.0%</td>
</tr>
<tr>
<td>Securities Lending Cash Collateral</td>
<td>674,085,233</td>
<td>854,630,428</td>
<td>(180,545,195)</td>
<td>-21.1%</td>
<td>854,630,428</td>
<td>581,289,763</td>
<td>273,340,665</td>
<td>47.0%</td>
</tr>
<tr>
<td>Properties at Cost plus Pre-paid Expenses</td>
<td>538,493</td>
<td>264,388</td>
<td>274,105</td>
<td>103.7%</td>
<td>264,388</td>
<td>125,080</td>
<td>139,308</td>
<td>111.4%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$5,627,736,383</td>
<td>$5,905,282,598</td>
<td>($277,546,215)</td>
<td>-4.7%</td>
<td>$5,905,282,598</td>
<td>$4,993,280,738</td>
<td>$912,001,860</td>
<td>18.3%</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>$319,294,524</td>
<td>$280,909,851</td>
<td>$38,384,673</td>
<td>13.7%</td>
<td>$280,909,851</td>
<td>$231,833,993</td>
<td>$49,075,858</td>
<td>21.2%</td>
</tr>
<tr>
<td>Securities Purchased</td>
<td>249,509,540</td>
<td>88,021,859</td>
<td>161,487,681</td>
<td>183.5%</td>
<td>88,021,859</td>
<td>166,332,290</td>
<td>(78,310,431)</td>
<td>-47.1%</td>
</tr>
<tr>
<td>Securities Lending Obligations</td>
<td>674,085,233</td>
<td>854,630,428</td>
<td>(180,545,195)</td>
<td>-21.1%</td>
<td>854,630,428</td>
<td>581,289,763</td>
<td>273,340,665</td>
<td>47.0%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$1,242,889,297</td>
<td>$1,223,562,138</td>
<td>$19,327,159</td>
<td>1.6%</td>
<td>$1,223,562,138</td>
<td>$979,456,046</td>
<td>$244,106,092</td>
<td>24.9%</td>
</tr>
</tbody>
</table>

Reserves

Pension plans establish reserves to set apart plan net assets for various anticipated liabilities. SDCERS' reserves have been established to account for employer and employee contributions, the accumulation of current retired members' expected benefits and other items.

The largest reserve balances are for accumulated benefits payable to retired SDCERS members. These comprise approximately 50% of plan assets ($2.2 billion reserved out of $4.4 billion in total reserves) as of June 30, 2008, and were also 50% of plan assets ($2.0 billion reserved out of $4.0 billion in total reserves) as of June 30, 2007. Reserves for Plan Sponsor Contributions at June 30, 2008 were $391.1 million, down $50.9 million from June 30, 2007. A complete listing of SDCERS' reserves and comparative balances for FY 2008 and FY 2007 are set out in Note 5. Reserve Balances.
Financial Section

Current Year Results

Key elements of FY 2008 results and year-over-year comparisons are summarized below.

Additions to Plan Assets

Revenues needed to pay current retirement benefits and accrue for future retirement benefits are accumulated from plan sponsor and member contributions and the earnings on invested assets (net of investment management fees and related expenses).

For FY 2008, contributions were offset by investment losses, resulting in net negative additions of $0.2 million, a decrease of $946.1 million from FY 2007 additions of $945.9 million. A comparative summary is set out in Table 2 below.

Table 2: Group Trust Contributions and Investment Earnings

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>Increase/ (Decrease)</th>
<th>Percentage Change</th>
<th>2007</th>
<th>2006</th>
<th>Increase/ (Decrease)</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers’ Contributions</td>
<td>$175,000,938</td>
<td>$181,388,065</td>
<td>($6,387,127)</td>
<td>-3.5%</td>
<td>$181,388,065</td>
<td>$282,770,428</td>
<td>($101,382,363)</td>
<td>-35.9%</td>
</tr>
<tr>
<td>Members’ Contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid by Employers</td>
<td>20,216,479</td>
<td>22,728,577</td>
<td>(2,512,098)</td>
<td>-11.1%</td>
<td>22,728,577</td>
<td>23,632,010</td>
<td>(903,433)</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Members’ Contributions</td>
<td>47,287,014</td>
<td>43,927,921</td>
<td>3,359,093</td>
<td>7.6%</td>
<td>43,927,921</td>
<td>32,959,653</td>
<td>10,968,268</td>
<td>33.3%</td>
</tr>
<tr>
<td>Members’ Contributions for Purchased Service Credit</td>
<td>7,262,118</td>
<td>6,042,961</td>
<td>1,219,157</td>
<td>20.2%</td>
<td>6,042,961</td>
<td>9,645,793</td>
<td>(3,602,832)</td>
<td>-37.4%</td>
</tr>
<tr>
<td>Earned Interest on Purchased Service Installment Contracts</td>
<td>1,022,247</td>
<td>1,352,182</td>
<td>(329,935)</td>
<td>-24.4%</td>
<td>1,352,182</td>
<td>1,825,921</td>
<td>(473,739)</td>
<td>-25.9%</td>
</tr>
<tr>
<td>Total Net Investment Earnings¹</td>
<td>(251,289,907)</td>
<td>689,860,139</td>
<td>(941,500,466)</td>
<td>-136.4%</td>
<td>689,860,139</td>
<td>455,726,222</td>
<td>234,133,917</td>
<td>51.4%</td>
</tr>
<tr>
<td>Other Income</td>
<td>335,210</td>
<td>619,044</td>
<td>(283,834)</td>
<td>-45.9%</td>
<td>619,044</td>
<td>15,500,000</td>
<td>(14,880,956)</td>
<td>-96.0%</td>
</tr>
<tr>
<td>Total Additions</td>
<td>($165,901)</td>
<td>$945,918,889</td>
<td>($946,084,790)</td>
<td>-100.0%</td>
<td>$945,918,889</td>
<td>$822,060,027</td>
<td>$123,858,862</td>
<td>15.1%</td>
</tr>
</tbody>
</table>


FY 2008 employer contributions totaled $175.0 million, a decrease of $6.4 million (-3.5%) compared to their contributions of $181.4 million in FY 2007. The Annual Required Contribution (ARC) for all three plan sponsors was lower in FY 2008 than in FY 2007, accounting for the reduced current year contributions. This compares to a $101.4 million FY 2007 decrease (35.9%) from FY 2006’s contributions of $282.8 million. In FY 2006, the City made a one-time additional payment of $100 million from tobacco revenue bond proceeds. For further information about plan sponsor contributions, see Note 4. Contributions in the Notes to Financial Statements and the Schedule of Plan Sponsors’ Contributions in the Required Supplementary Information.

FY 2008 member contributions paid by plan sponsors totaled $20.2 million, a decrease of $2.5 million (-11.1%) compared to $22.7 million in FY 2007. The FY 2008 City salary ordinance lowered the contribution offset rate paid by the City compared to the FY 2007 rate, accounting for the reduction in contributions paid by the City. FY 2007 member contributions paid by plan sponsors decreased by $0.9 million (-3.8%) from $23.6 million in FY 2006.

18 SDCE RS Comprehensive Annual Financial Report 2008
FY 2008 member contributions totaled $47.3 million, an increase of $3.4 million (7.6%) compared to $43.9 million in FY 2007. FY 2007 member contributions increased by $11.0 million (33.3%) from $33.0 million in FY 2006. Increases in members' contributions in FY 2007 and again in FY 2008 occurred because the City has progressively lowered the percentage of member contributions it paid on behalf of its employees.

FY 2008 member contributions for purchased service credit totaled $7.3 million, an increase of $1.2 million (20.2%) compared to $6.0 million in FY 2007. FY 2007 member contributions for purchased service credit decreased $3.6 million (-37.4%) from $9.6 million in FY 2006. Annual fluctuations in purchase service credit activity vary each year depending on the number of participating members.

In FY 2008, net investment losses totaled $251.3 million, a decrease of $941.1 million (-136.4%) due to lower investment performance from FY 2007. Depreciation in the fair value of equity holdings accounted for $894.6 million of the decrease, real estate holdings another $69.7 million of the decrease, while fixed income holdings appreciated by $17.6 million. By comparison, FY 2007 net investment earnings totaled $689.9 million, an increase of 51.4%, or $234.1 million compared to net investment earnings of $455.7 million in FY 2006.

A report on SDCERS' investment activity by Callan Associates, SDCERS' Investment Consultant, is provided in the Investment Section. This report provides commentary on specific asset class investment returns, index returns and peer group performance. The Investment Section also includes information about SDCERS' FY 2008, FY 2007 and long-term investment performance.

SDCERS' one-year investment performance as of June 30, 2008 was -4.66%, compared to +16.5% and +12.7% as of June 30, 2007 and June 30, 2006, respectively. According to the Callan Associates database of public fund performance, SDCERS' investment performance was in the top 51% for the year ended June 30, 2008, and in the top 15% and 4% over the five-, and ten-year periods ended June 30, 2008.

FY 2006 Other Income reflects litigation settlement proceeds of $15.5 million.

**Deductions from DB Plan Assets**

SDCERS administers lifetime retirement annuities, survivor benefits, and permanent disability benefits. The costs of these programs include recurring pension benefit payments and refunds of contributions to terminated members.

Deductions for FY 2008 were $296.7 million. Deductions for FY 2007 and FY 2006 totaled $278.0 million and $260.0 million, respectively.
A comparative summary is set out in Table 3 below.

**Table 3: Group Trust Payments and Other Deductions**

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement and Disability Allowances and Other Benefit Payments</td>
<td>$254,013,756</td>
<td>$235,262,751</td>
<td>$18,751,005</td>
<td>8.0%</td>
<td>$235,262,751</td>
<td>$214,704,695</td>
<td>$20,558,056</td>
<td>9.6%</td>
</tr>
<tr>
<td>Refunds of Members’ Contributions</td>
<td>3,866,690</td>
<td>3,393,507</td>
<td>473,183</td>
<td>13.9%</td>
<td>3,393,507</td>
<td>4,559,977</td>
<td>(1,166,470)</td>
<td>-25.6%</td>
</tr>
<tr>
<td>Administrative Deductions</td>
<td>15,776,346</td>
<td>19,103,395</td>
<td>(3,327,049)</td>
<td>-17.4%</td>
<td>19,103,395</td>
<td>18,438,356</td>
<td>665,039</td>
<td>3.6%</td>
</tr>
<tr>
<td>DROP Interest Deduction</td>
<td>23,050,681</td>
<td>20,263,468</td>
<td>2,787,213</td>
<td>13.8%</td>
<td>20,263,468</td>
<td>17,748,612</td>
<td>2,514,856</td>
<td>14.2%</td>
</tr>
<tr>
<td>Litigation Settlement Deduction</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
<td>-</td>
<td>4,535,682</td>
<td>(4,535,682)</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Deductions</td>
<td>$296,707,473</td>
<td>$278,023,121</td>
<td>$18,684,352</td>
<td>6.7%</td>
<td>$278,023,121</td>
<td>$259,987,322</td>
<td>$18,035,799</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

In FY 2008, retirement, disability allowances and other benefit payments totaled $254.0 million, $18.8 million (8.0%) more than FY 2007’s payments of $235.3 million. FY 2007 retirement and disability allowances and other benefit payments were $20.6 million (9.6%) more than in FY 2006, which totaled $214.7 million. An increasing number of total retirees in FY 2007 and again FY 2008 account for the increased payments each year.

In FY 2008, refunds of member contributions totaled $3.9 million, a $0.5 million increase (13.9%) compared to FY 2007 refunds of $3.4 million. FY 2007 refunds of member contributions decreased by $1.2 million (25.6%) from refunds of member contributions in FY 2006 of $4.6 million. The annual fluctuations in refunds of member contributions are not indicative of any notable trend.

FY 2008 administrative expenses totaled $15.8 million, a decrease of $3.3 million (17.4%) from FY 2007 expenses of $19.1 million. Outside data processing costs and outside legal costs were lower in FY 2008 following the completion of several projects and legal cases in FY 2007. FY 2007 administrative expenses increased by $0.7 million (4.0%) over FY 2006 administrative expenses of $18.4 million. See the Schedule of Payments to Consultants in the Other Supplementary Information of the Financial Section for more details.

FY 2008 Deferred Retirement Option Program (DROP) interest expenses totaled $23.1 million, an increase of $2.8 million (13.8%) over FY 2007 expenses of $20.3 million. A 15% increase in DROP reserves, which earned interest, accounted for the increase in DROP interest expense. FY 2007 DROP Program interest expenses increased by $2.5 million (14.2%) over FY 2006 expenses of $17.7 million, the increased FY 2007 expense again reflective of increased contributions to participant DROP balances.

FY 2006 included litigation settlement expenses of $4.5 million.
Table 4: Increase in Group Trust Net Assets

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>Increase/ (Decrease)</th>
<th>Percentage Change</th>
<th>2007</th>
<th>2006</th>
<th>Increase/ (Decrease)</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Additions (Table 2)</td>
<td>($165,901)</td>
<td>$945,918,889</td>
<td>($946,084,790)</td>
<td>-100.0%</td>
<td>$945,918,889</td>
<td>$822,060,027</td>
<td>$123,858,862</td>
<td>15.1%</td>
</tr>
<tr>
<td>Less Total Deductions (Table 3)</td>
<td>296,707,473</td>
<td>278,023,121</td>
<td>18,684,352</td>
<td>6.7%</td>
<td>278,023,121</td>
<td>259,987,322</td>
<td>18,035,799</td>
<td>6.9%</td>
</tr>
<tr>
<td>Net Increase (Decrease) in Defined Benefit Pension Plan’s Net Assets</td>
<td>($296,873,374)</td>
<td>$667,895,768</td>
<td>($964,769,142)</td>
<td>-144.4%</td>
<td>$667,895,768</td>
<td>$562,072,705</td>
<td>$105,823,063</td>
<td>18.8%</td>
</tr>
<tr>
<td>Additions as a Percentage of Current Year Deductions</td>
<td>-0.1%</td>
<td>340.2%</td>
<td>-</td>
<td>n/a</td>
<td>340.2%</td>
<td>316.2%</td>
<td>-</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Coverage - Total Additions Compared to Total Deductions
As set out in Table 4 above, contributions in FY 2008 were offset by investment losses, resulting in net additions of $(0.2) million. In FY 2007, additions of $945.9 million provided over three times coverage, or 340.2%, of FY 2007 deductions of $278.0 million. In FY 2008 and FY 2007, SDCERS experienced an overall change in plan net assets of ($296.9) million and $667.9 million, respectively. FY 2006 additions of $822.1 million supplied three times coverage, or 316.2%, of FY 2006’s deductions of $260.0 million, reflecting an overall net increase of $562.1 million in net assets.

Post-Employment Healthcare Benefit Plan (HCB Plan)
Post-employment Healthcare Benefit Plan funds are not part of the SDCERS trust fund and are reported in the City’s financial statements.

Stock Market Volatility
The turmoil in the global financial markets in calendar 2008 has impacted negatively SDCERS’ investment portfolio. SDCERS’ investment performance for the quarter ending September 30, 2008, the most recent period for which investment performance has been measured, was -10.1%. However, this performance reflects only one quarter of SDCERS’ four-quarter 2009 fiscal year. Because SDCERS’ actuary uses the final investment return as of June 30, 2009 to determine a plan sponsor’s ARC, only when all four fiscal quarters have been concluded, on June 30, 2009, and the ARC payment calculated, will the impact of the current investment market be known. Once calculated by the actuary, that ARC will not be paid by our plan sponsors until the following fiscal year, beginning in July 2010.

The ARC that the plan sponsors will pay for the fiscal year beginning on July 1, 2009 will be based on fiscal year investment returns from July 1, 2007 through June 30, 2008.
## San Diego City Employees’ Retirement System
### Statements of Plan Net Assets
#### June 30, 2008 and June 30, 2007

### ASSETS

#### Cash and Cash Equivalents

- **Cash or Equity in Pooled Cash and Investments with the City of San Diego**
  - 2008: $4,809,779
  - 2007: $490,168

- **Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents**
  - 2008: $470,819,764
  - 2007: $501,400,271

- **Total Cash and Cash Equivalents**
  - 2008: $475,629,543
  - 2007: $527,795,020

#### Receivables

- **Plan Sponsors’ and Members’ Contributions**
  - 2008: $3,230,740
  - 2007: $3,455,089

- **Members’ - Purchased Service Contracts**
  - 2008: $12,089,911
  - 2007: $14,340,795

- **Accrued Interest Receivable**
  - 2008: $15,798,225
  - 2007: $16,824,346

- **Securities Sold**
  - 2008: $93,965,101
  - 2007: $100,068,286

- **Total Receivables**
  - 2008: $125,083,977
  - 2007: $134,688,516

#### Investments, at Fair Value

- **Short-Term Investments**
  - 2008: $39,689,891
  - 2007: $42,267,813

- **Domestic Fixed Income Securities**
  - 2008: $937,723,140
  - 2007: $998,629,777

- **International Fixed Income Securities**
  - 2008: $171,952,888
  - 2007: $183,121,507

- **Domestic Equity Securities**
  - 2008: $1,672,227,162
  - 2007: $1,780,841,026

- **International Equity Securities**
  - 2008: $769,528,850
  - 2007: $819,510,996

- **Mortgages**
  - 2008: $457,795,978
  - 2007: $487,530,569

- **Directly-Owned Real Estate Assets and Real Estate Equity Securities**
  - 2008: $24,110,280
  - 2007: $1,388,786

- **Total Investments**
  - 2008: $4,048,917,909
  - 2007: $4,311,901,688

#### Securities Lending Cash Collateral

- **Securities Lending Obligations for Cash Collateral**
  - 2008: $632,972,635
  - 2007: $674,085,233

- **Total Investments Including Securities Lending Cash Collateral**
  - 2008: $4,681,890,545

#### Prepaid Expenses

- **Prepaid Expenses**
  - 2008: $14,708
  - 2007: $15,664

#### Capital Assets at Cost, Net of Accumulated Depreciation of $379,862 and $317,783, respectively

- **Capital Assets at Cost**
  - 2008: $490,941
  - 2007: $522,829

- **TOTAL ASSETS**
  - 2008: $5,283,109,714
  - 2007: $5,627,736,383

### LIABILITIES

#### Accounts Payable

- **Accounts Payable**
  - 2008: $724,390
  - 2007: $771,440

#### Investment Related Fees Payable

- **Investment Related Fees Payable**
  - 2008: $4,963,163
  - 2007: $5,285,330

#### Accrued Wages and Benefits

- **Accrued Wages and Benefits**
  - 2008: $661,963
  - 2007: $704,959

#### DROP Liability

- **DROP Liability**
  - 2008: $305,299,867
  - 2007: $311,756,373

#### Pension Liability

- **Pension Liability**
  - 2008: $776,222
  - 2007: $776,222

#### Securities Purchased

- **Securities Purchased**
  - 2008: $234,291,901
  - 2007: $249,509,540

#### Securities Lending Obligations for Cash Collateral

- **Securities Lending Obligations for Cash Collateral**
  - 2008: $632,972,635
  - 2007: $674,085,233

- **TOTAL LIABILITIES**
  - 2008: $1,179,690,141
  - 2007: $1,242,889,297

- **NET ASSETS HELD IN TRUST FOR PAYMENT OF PENSION BENEFITS**
  - 2008: $4,103,419,573
  - 2007: $5,627,736,383

(A Schedule of Funding Progress for each plan sponsor is presented in the Required Supplementary Information section which follows the Notes to the Financial Statements.)

For a full understanding of the Statements of Plan Net Assets, please see the accompanying Notes to the Financial Statements, which follow.
## San Diego City Employees’ Retirement System
### Statements of Changes in Plan Net Assets
#### For the years ended June 30, 2008 and June 30, 2007

<table>
<thead>
<tr>
<th></th>
<th>2008 City of San Diego</th>
<th>2008 Unified Port District</th>
<th>2008 Airport Authority</th>
<th>2008 Total</th>
<th>2007 City of San Diego</th>
<th>2007 Unified Port District</th>
<th>2007 Airport Authority</th>
<th>2007 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADDITIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan Sponsor</td>
<td>$165,580,938</td>
<td>$4,900,000</td>
<td>$2,520,000</td>
<td>$175,000,938</td>
<td>$181,388,065</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members’ Portion Paid by Plan Sponsor</td>
<td>15,737,432</td>
<td>2,829,220</td>
<td>1,649,827</td>
<td>20,216,479</td>
<td>22,728,577</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members’</td>
<td>45,203,311</td>
<td>1,343,753</td>
<td>739,950</td>
<td>47,282,014</td>
<td>43,927,921</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Members’ for Purchased Service</td>
<td>6,790,375</td>
<td>442,790</td>
<td>28,953</td>
<td>7,262,118</td>
<td>6,042,961</td>
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</tr>
<tr>
<td>Earned Interest on Purchased Service Installment Contracts</td>
<td>832,177</td>
<td>125,366</td>
<td>64,704</td>
<td>1,022,247</td>
<td>1,352,182</td>
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<tr>
<td>Total Contributions</td>
<td>234,144,233</td>
<td>11,641,129</td>
<td>5,003,434</td>
<td>250,788,796</td>
<td>255,439,706</td>
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</tr>
<tr>
<td><strong>Investment Earnings</strong></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Net Appreciation (Depreciation) in Fair Value of Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>(377,899,855)</td>
<td>(19,786,635)</td>
<td>(4,517,880)</td>
<td>(402,204,370)</td>
<td>492,378,369</td>
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<tr>
<td>Fixed Income</td>
<td>40,712,529</td>
<td>2,081,554</td>
<td>472,272</td>
<td>43,266,355</td>
<td>25,703,535</td>
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<tr>
<td>Real Estate Equity and Real Estate Securities</td>
<td>(28,333,716)</td>
<td>(1,491,484)</td>
<td>(340,886)</td>
<td>(30,166,086)</td>
<td>39,493,059</td>
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<tr>
<td>Total Net Appreciation (Depreciation) in Fair Value of Investments</td>
<td>(365,521,042)</td>
<td>(19,196,565)</td>
<td>(4,386,494)</td>
<td>(389,104,101)</td>
<td>557,574,963</td>
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<td></td>
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<tr>
<td>Investment Income (Loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity - Dividends</td>
<td>67,177,716</td>
<td>3,513,742</td>
<td>802,292</td>
<td>71,493,750</td>
<td>63,459,329</td>
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<tr>
<td>Fixed Income - Interest</td>
<td>72,016,432</td>
<td>3,760,225</td>
<td>858,219</td>
<td>76,634,876</td>
<td>79,741,577</td>
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<tr>
<td>Real Estate - Income</td>
<td>7,832,467</td>
<td>409,248</td>
<td>93,430</td>
<td>8,335,145</td>
<td>9,055,075</td>
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</tr>
<tr>
<td>Total Investment Income</td>
<td>147,026,615</td>
<td>7,683,215</td>
<td>1,753,941</td>
<td>156,463,771</td>
<td>152,235,981</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Investment Expenses</td>
<td>22,528,620</td>
<td>(1,177,270)</td>
<td>(268,749)</td>
<td>(23,974,639)</td>
<td>(21,681,992)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Net Investment Income (Loss)</td>
<td>(241,023,047)</td>
<td>(12,690,620)</td>
<td>(2,901,302)</td>
<td>(256,614,969)</td>
<td>688,128,952</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities Lending Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Gross Earnings</td>
<td>35,099,127</td>
<td>1,832,646</td>
<td>418,276</td>
<td>37,350,049</td>
<td>35,579,779</td>
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</tr>
<tr>
<td>Borrower Rebates</td>
<td>(28,314,169)</td>
<td>(1,478,380)</td>
<td>(337,420)</td>
<td>(30,129,969)</td>
<td>(33,216,240)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Expenses (Lending Agent)</td>
<td>(1,780,814)</td>
<td>(92,982)</td>
<td>(21,222)</td>
<td>(1,895,018)</td>
<td>(632,352)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Net Securities Lending Income</td>
<td>5,004,144</td>
<td>261,284</td>
<td>59,634</td>
<td>5,325,062</td>
<td>1,731,187</td>
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<td></td>
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<tr>
<td>Total Net Investment Earnings</td>
<td>(236,018,903)</td>
<td>(12,429,336)</td>
<td>(2,841,668)</td>
<td>(251,289,907)</td>
<td>689,860,139</td>
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<tr>
<td>Other Income</td>
<td>314,839</td>
<td>16,580</td>
<td>3,791</td>
<td>335,210</td>
<td>619,044</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL ADDITIONS</td>
<td>($1,559,831)</td>
<td>($771,627)</td>
<td>$2,165,557</td>
<td>($165,901)</td>
<td>$945,918,889</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Continued on Page 24)
## San Diego City Employees’ Retirement System
### Statements of Changes in Plan Net Assets (continued)
#### For the years ended June 30, 2008 and June 30, 2007

### DEDUCTIONS

<table>
<thead>
<tr>
<th></th>
<th>City of San Diego</th>
<th>Unified Port District</th>
<th>Airport Authority</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13th Check</td>
<td>4,527,141</td>
<td>168,975</td>
<td>4,014</td>
<td>4,700,130</td>
<td>4,522,573</td>
</tr>
<tr>
<td>Corbett Benefit</td>
<td>5,524,855</td>
<td>-</td>
<td>-</td>
<td>5,524,855</td>
<td>5,613,906</td>
</tr>
<tr>
<td>Death Benefit</td>
<td>444,932</td>
<td>10,000</td>
<td>-</td>
<td>454,932</td>
<td>457,035</td>
</tr>
<tr>
<td><strong>Total Benefit Payments</strong></td>
<td>243,377,857</td>
<td>10,227,140</td>
<td>408,759</td>
<td>254,013,756</td>
<td>235,262,751</td>
</tr>
<tr>
<td>Refunds of Members’ Contributions</td>
<td>3,581,254</td>
<td>71,249</td>
<td>214,187</td>
<td>3,866,690</td>
<td>3,393,507</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>14,572,788</td>
<td>881,517</td>
<td>322,041</td>
<td>15,776,346</td>
<td>19,103,395</td>
</tr>
<tr>
<td>DROP Interest Expenses</td>
<td>22,634,121</td>
<td>378,501</td>
<td>38,059</td>
<td>23,050,681</td>
<td>20,263,468</td>
</tr>
<tr>
<td><strong>Total Deductions</strong></td>
<td>284,166,020</td>
<td>11,558,407</td>
<td>983,046</td>
<td>296,707,473</td>
<td>278,023,121</td>
</tr>
</tbody>
</table>

### NET ASSETS HELD IN TRUST FOR PAYMENT OF PENSION BENEFITS

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BEGINNING OF YEAR</strong></td>
<td>4,389,145,424</td>
<td>4,013,824,692</td>
</tr>
<tr>
<td><strong>NET INCREASE (DECREASE)</strong></td>
<td>(285,725,851)</td>
<td>(296,873,374)</td>
</tr>
<tr>
<td><strong>END OF YEAR</strong></td>
<td>4,103,419,573</td>
<td>4,481,951,318</td>
</tr>
</tbody>
</table>

For a full understanding of the Statements of Changes in Plan Net Assets, please see the accompanying Notes to the Financial Statements.
San Diego City Employees’ Retirement System
Statement of Fiduciary Net Assets - Agency Fund
City of San Diego Preservation of Benefits Fund
As of June 30, 2008

**ASSETS**

Cash and Cash Equivalents
- Cash or Equity in Pooled Cash and Investments with the City of San Diego $14,607
- Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents 111,413
  Total Cash and Cash Equivalents 126,020

Receivables
- Accrued Interest Receivable 714
  Total Receivables 714

**TOTAL ASSETS** $ 126,734

**LIABILITIES**

- Accounts Payable $ 331
  Sundry Trust Liability 126,403
  **TOTAL LIABILITIES** $ 126,734

**NET ASSETS** $ (0)

For a full understanding of the Statement of Fiduciary Net Assets, please see the accompanying Notes to the Financial Statements.
Financial Section

San Diego City Employees’ Retirement System
Notes to the Financial Statements
June 30, 2008 and June 30, 2007

FINANCIAL STATEMENTS

The following information supplements the audited financial statements, the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets. Note 10. Legal Action and Note 11. Subsequent Events provide information regarding litigation that may have a financial impact on SDCERS or circumstances that may have occurred after June 30, 2008 through the end of the audit period.

1. Summary of Significant Accounting Policies

Basis of Accounting

SDCERS’ financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP). The U.S. Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, established financial reporting standards for defined benefit pension plans.

In March 2007, the Board adopted a Declaration of Group Trust, effective July 1, 2007, to fulfill requirements in the City Charter and Municipal Code that the assets of each SDCERS Plan be used to pay benefits and expenses relating only to that Plan. Under the Group Trust, the City, Port, and Airport’s plans will be legally treated as separate plans. Unlike a multiple-employer plan, under a group trust the assets of one employer’s plan will not be available to pay benefits under any other employer’s plan if one or more of the employers becomes insolvent. Assets of each sponsor’s plan will be pooled for investment purposes only.

The City, Port and Airport approved their respective Participation and Administration Agreements, and in September 2007, the City Council adopted a necessary enabling resolution approving each Agreement. To confirm the separation of the City, Port and Airport plans, SDCERS filed requests with the IRS for separate determination letters for the Port and Airport during 2008. These requests remain pending. Separate financial statements are presented in this CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan. Separate statements are presented for 2008 only, as that is the year for which separate plans were effective. SDCERS worked with its custodian, State Street Bank & Trust Company (State Street), to implement the necessary accounting procedures to present separate financial statements by plan sponsor even while the assets remain pooled for investment purposes.

GASB Statement No. 50, Pension Disclosures, which is effective for the fiscal year ending June 30, 2008 and was implemented by SDCERS during 2008, requires the Group Trust to disclose certain information regarding the funded status and actuarial methods and assumptions used in the most recent actuarial valuations in the notes to the financial statements rather than in the required supplementary information section. In addition, GASB Statement No. 50 requires the Group Trust to disclose the methods and assumptions used to determine the fair value of investments, such as real estate investments, for which quoted market prices are not available.

SDCERS is also the fiduciary of an agency fund for the City of San Diego’s Preservation of Benefit Plan. The agency fund accounts for assets held by SDCERS in a trustee capacity or as an agent on behalf of the City. The agency fund is custodial in nature and does not measure the results of operations. See Note 8. Preservation of Benefit Plan Activity for additional information.

SDCERS’ financial statements are prepared using the accrual basis of accounting. SDCERS is considered part of the City’s financial reporting entity, and SDCERS’ financial statements are included in the City’s Comprehensive Annual Financial Report (City’s CAFR).

Member contributions are recognized in the period in which they are due. Plan sponsor contributions are recognized when due and a formal commitment to provide the contribution has been made. Benefits and refunds are recognized when due in accordance with SDCERS’ Group Trust. SDCERS’ investments are stated
at fair value. Investment income is recognized in accordance with GASB Statement No. 25 and is stated net of investment manager fees and related expenses.

**Cash or Equity in Pooled Cash and Investments on Deposit with the City of San Diego**

The City maintains a cash and investment pool that is available to all departments of the City and other related entities for which the City is the depository. The credit risk for this pool is disclosed in the Notes to the City’s CAFR. Interest is earned on the pooled funds each accounting period (13 periods each fiscal year). SDCERS had a total of $5,122,182 and $490,168 on deposit in the pool as of June 30, 2008 and June 30, 2007, respectively.

**Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents**

The balances in the audited financial statements of Cash and Cash Equivalents on Deposit with the Custodial Bank and Fiscal Agents totaled $501,400,271 as of June 30, 2008, and $527,795,020 as of June 30, 2007. These balances represent a significant portion of plan assets that are identified as the cash collateral, invested in U.S. Government Federal Funds, from three market neutral portfolios (long and short U.S. equity positions) held with prime brokers (agents). These market neutral portfolios totaled $432,367,755 as of June 30, 2008, and $433,414,612 as of June 30, 2007. The market neutral portfolios are classified as domestic fixed income (short duration - defensive) investment strategies in SDCERS’ strategic target asset allocation. SDCERS does not have a target investment allocation to cash.

**Receivables**

SDCERS’ receivables reflect accrued employer and employee contributions due to SDCERS and member contributions for executed purchase of service contracts where payment is pending. See Note 4. Contributions for additional discussion and disclosure regarding purchase of service contracts.

In accordance with GASB Statement No. 25, securities sold represents a receivable of cash under trade date accounting. Cash is received as of the transaction settlement date, which is typically trade date plus one to three business days.

**Investments**

The Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel, and to provide oversight and monitoring of the investment managers it hires. Additional discretion beyond the City Charter is provided for under the California State Constitution and other relevant authorities whereby the Board may, at its discretion, invest funds in any form or type of investment, financial instrument, or financial transaction. SDCERS’ agents, in SDCERS’ name, manage all investments, which are stated at fair value in the accompanying Statements of Plan Net Assets. SDCERS’ custodian, State Street, provides the market values of exchange traded assets. Through its agents, SDCERS also holds investments in non-publicly traded institutional investment funds. These institutional investment funds are comprised of exchange traded securities, the market values of which are provided by the respective custodians. Directly-owned real estate assets are stated at appraised values as determined by SDCERS’ real estate managers and third-party appraisal firms.

**Capital Assets**

Purchased capital assets are recorded at historical cost. Assets are depreciated using the straight-line method over the following useful lives:

- Office Equipment: 10-15 years
- Computer Equipment: 5 years
Financial Section

San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Liabilities
Liabilities reflect accrued financial obligations of SDCERS as of June 30, 2008 and June 30, 2007, including the repayment of securities lending collateral at a future date. In accordance with GASB Statement No. 25, securities purchased represent a payable of cash that is required under trade date accounting to settle pending purchases on a settlement date basis, which is typically trade date plus one to three business days. Also included within Liabilities are DROP reserves. In addition, a Pension Liability is shown representing that portion of the City’s Net Pension Obligation that is apportioned to SDCERS employees.

Expenses
SDCERS’ administrative expenses are paid from plan assets. Fees for investment management, actuarial services, custodial bank services and other operational costs are netted against annual additions to plan assets.

Income Taxes
Under Internal Revenue Code Section 401(a) and California Revenue and Taxation Code Section 23701, SDCERS’ Group Trust and the three separate defined benefit plans participating in the Group Trust are exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made in the financial statements. In July 2005, SDCERS filed a request for a determination letter (Form 5300) with the Internal Revenue Service. While a determination letter is not required for a defined benefit plan to be tax-qualified, it confirms SDCERS’ status as a qualified governmental pension plan. The IRS issued the determination letter for SDCERS on January 25, 2008. In June and August 2008, SDCERS filed applications for determination letters for the Group Trust and for the separate plans and trusts sponsored by the City, Port and Airport. Those applications are pending (See Note 7. IRS Tax Determination Letter and Voluntary Correction Program Filings).

Use of Estimates
The preparation of SDCERS’ financial statements in conformity with GAAP requires SDCERS’ management to make estimates and assumptions that affect the reported amounts of Net Assets Held in Trust for the Payment of Benefits as of the date of the financial statements. These estimates also affect the actuarial information included in the Required Supplementary Information as of the valuation date, the changes in plan net assets during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements.

Reclassifications
Certain reclassifications have been made to the 2007 financial statements in order to conform to the 2008 presentation.

2. Plan Descriptions

General
SDCERS administers three separate defined benefit pension plans for the City, Port and Airport, and SDCERS is administered by the Board to provide service retirement, disability retirement, death, and survivor benefits to its participants. Employees of the Port became members of SDCERS in 1963. Pursuant to an amendment to the San Diego City Charter in 2002, the Port contracts directly with SDCERS to administer its defined benefit plan. On January 1, 2003, the State of California established the Airport as a separate agency. In 2003, the Airport entered into an agreement with SDCERS to have SDCERS administer its defined benefit plan.

From January 1, 2003 through June 30, 2007, SDCERS administered a qualified multiple employer defined benefit plan for the City, the Port and the Airport. However, as of July 1, 2007, the City, Port and Airport plans have been separated into independent, qualified, single employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust, which was
San Diego City Employees’ Retirement System  
Notes to the Financial Statements (continued)  
June 30, 2008 and June 30, 2007

established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust.

SDCERS acts as a common, independent investment and administrative agent for the City, Port and Airport, whose plans cover all eligible employees. In a defined benefit plan, pension benefits are determined primarily by a member’s age at retirement, number of years of service credit, and final compensation based on the highest salary earned over a consecutive twelve-month period. SDCERS also coordinates the benefits for the City’s post-employment healthcare benefit plan.

The Port and Airport Plans provide for five-year vesting for employees to be eligible to receive pension benefits. The City Plan requires ten years of service for its employees to vest for a pension benefit. Beginning on January 3, 2003, the City’s ten years of service can be a combination of time worked (service earned) and purchased service.

SDCERS is included in the City’s CAFR (www.sandiego.gov/comptroller/reports/index.shtml) as a blended component unit and reported as a pension trust fund in fiduciary funds.

**Membership**

All City, Port and Airport employees receiving employment benefits are eligible to participate in SDCERS. Salaried employees hired on or after August 11, 1993, became members of SDCERS upon employment, except for elected officers who have the option to join.

SDCERS’ participants consist of Retirees (retired members and beneficiaries) receiving benefits, and Members (active vested, deferred vested (inactive members entitled to benefits but not yet receiving them), active non-vested, and inactive non-vested).

The following membership table provides information on the number of members by category for each plan sponsor. SDCERS’ total number of participants increased by 463 in FY 2008. This was comprised of a net increase of 185 Members and increase of 278 Retirees.

<table>
<thead>
<tr>
<th>Members</th>
<th>As of June 30, 2008</th>
<th>As of June 30, 2007</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>City Members</td>
<td>Safety Members</td>
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<tr>
<td>Active Vested</td>
<td>3,392</td>
<td>1,417</td>
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<tr>
<td>Deferred Vested</td>
<td>734</td>
<td>168</td>
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<tr>
<td>Active Non-Vested</td>
<td>2,588</td>
<td>1,090</td>
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<tr>
<td>Inactive Non-Vested</td>
<td>1,521</td>
<td>320</td>
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<tr>
<td>Retirees</td>
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<tr>
<td>Retired</td>
<td>3,560</td>
<td>2,341</td>
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<tr>
<td>DROP Participants</td>
<td>609</td>
<td>430</td>
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<tr>
<td>Total Members and Retirees</td>
<td>12,404</td>
<td>5,766</td>
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</table>
Financial Section

San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Post-Employment Healthcare Benefit Plan (HCB Plan)

Pursuant to the San Diego Municipal Code, SDCERS processes health insurance premium payments and healthcare reimbursement requests pertaining to the City’s post-employment healthcare benefit plan for health-eligible retirees. Post-employment healthcare benefits for members retiring from City employment are based on their health-eligibility status. SDCERS also coordinates a special healthcare benefit for spouses and dependents of eligible City employees killed in the line of duty. The HCB Plan is funded by the City.

3. Deposits and Investments

Cash

At June 30, 2008 and June 30, 2007 SDCERS’ cash or equity in pooled cash and investments and cash and cash equivalents were as follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2008</th>
<th>June 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash or equity in pooled cash and investments on deposit with the City of San Diego</td>
<td>$5,122,182</td>
<td>$490,168</td>
</tr>
<tr>
<td>Cash and cash equivalents on deposit with Custodial Bank and Fiscal Agents¹</td>
<td>$501,400,271</td>
<td>$527,795,020</td>
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<tr>
<td><strong>Total Cash and Cash Equivalents</strong></td>
<td><strong>$506,522,453</strong></td>
<td><strong>$528,285,188</strong></td>
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</tbody>
</table>

¹ Includes cash collateral from market neutral portfolios (defensive, domestic fixed income strategy) that totaled $432,367,755 as of June 30, 2008 and $433,414,612 as of June 30, 2007. This amount also includes residual cash of $69,032,516 as of June 30, 2008 and $94,380,408 as of June 30, 2007, held in each manager’s portfolio, which is invested overnight by SDCERS’ custodial bank. SDCERS does not have a target allocation to cash; any cash or cash equivalent balances on deposit are reserved for paying benefits and SDCERS’ operational expenses.

Investments

The Board has exclusive authority over the administration and investment of SDCERS’ Trust Fund assets pursuant to Section 144 of the Charter of the City and the California State Constitution Article XVI, Section 17.

The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board may also invest in additional investments as approved by resolution of the City Council. These investments include bonds, notes or other obligations, real estate investments, common stock, preferred stock and pooled vehicles. The risks and correlations of each asset class and investment manager are considered relative to an entire portfolio. An asset class that may be risky on its own could lessen the risk of the total portfolio due to its low correlation with other asset classes in the portfolio. Investment policies permit SDCERS’ Board to invest in financial futures contracts provided the contracts do not hedge SDCERS’ Trust Fund portfolio. Financial futures contracts are recorded at market value each day and must be settled at expiration date. Changes in the market value of the contracts will result in the recognition of a gain or loss under GASB Statement No. 25.

Investment earnings are recorded in accordance with GASB Statement No. 25. Net investment income includes the net appreciation/depreciation in the fair value of investments, interest income, dividend income, and other income not included in the appreciation/depreciation in the fair value of investments, less total investment expenses, including investment management and custodial fees and all other significant investment-related costs. SDCERS had current year realized gains (income earnings and net gains) that totaled $294,973,905 for the year ended June 30, 2008, and $464,180,996 for the year ended June 30, 2007. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year.
Through its investment objectives and policies, the Board has placed considerable importance on both generating a reasonable rate of return above inflation and on the preservation of capital. Investments are made only after the risk/reward trade offs are clearly understood.

**Portfolio Risk – Credit, Interest Rate, and Foreign Currency**

SDCERS investment portfolio includes fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on efficient model portfolios developed from an annual asset allocation study. The returns of fixed income strategies vary less than equity returns. SDCERS’ target asset allocation policy is reviewed each year to reflect changes in capital market assumptions. SDCERS’ target allocation to fixed income strategies as of June 30, 2008 was 34%. The fixed income allocation is externally-managed and is comprised as follows: 18% to core-plus domestic fixed income, which is benchmarked against the Lehman Aggregate Bond Index; 9% to an unsecuritized market neutral strategy, which is benchmarked to the Merrill Lynch 1 - 5 year Government/Corporate Index; 4% to non-U.S. fixed income, which is benchmarked to the Citigroup Non-U.S. Government Bond index; and, 3% to convertible bond securities, which is benchmarked to the Merrill Lynch Convertible Index, All Qualities. SDCERS’ overall portfolio diversification limits the fixed income invested in the debt security of any one issuer to 10% at the time of the initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government) to minimize overall market and credit risk.

The market neutral and convertible bond strategies do not exhibit interest rate risk and duration is not relevant in structuring these portfolios. Convertible securities diversify SDCERS’ fixed income portfolio and are expected to provide a higher rate of return than traditional fixed income strategies due to their conversion feature. Convertible securities are not likely to decrease in value during a rising interest rate environment because their valuation is tied to the underlying value of the company’s common stock. This low correlation to fixed income assets provides additional diversification to the portfolio’s fixed income allocation. SDCERS’ market neutral strategy was added to SDCERS’ fixed income strategy in 1998. This strategy uses equity securities held long and sold short with the cash proceeds of the short sales held in a cash account invested in U.S Federal Government Funds (Fed Funds). The total return of the market neutral strategy can be impacted by the interest rate offered on Fed Funds deposits. This strategy is benchmarked to a shorter duration bond index that in a normal interest rate environment would be expected to have a lower yield at the short end of the interest rate curve. The market neutral strategy has a low correlation to traditional fixed income strategies and is a proxy for a shorter-duration defensive fixed income strategy. The balance of SDCERS’ fixed income portfolio (22% target of total invested assets) is sensitive to credit risk and interest rate risk.

**Credit Risk**

Credit risk is the risk that an issuer or other underlying borrower to a debt instrument will not fulfill its obligations. Nationally-recognized statistical rating organizations assign ratings to measuring credit risk. These rating agencies assess a firm’s or government’s willingness and ability to repay its debt obligations based on many factors. SDCERS employs a domestic fixed income manager that invests in convertible bonds. When assessing convertible bonds, credit risk is less important in the decision to purchase the convertible bond because it is the performance of the underlying common stock of that company that impacts the majority of the return of the convertible bond. SDCERS also employs two core-plus bond managers that invest in a wide variety of fixed income and derivative securities. The investment management agreements between SDCERS’ and its two core-plus bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS’ domestic core-plus fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other domestic core-plus fixed income manager is limited to U.S. fixed income investments only.
The permitted securities and derivatives for the two domestic core-plus fixed income managers are as follows:

Fixed Income Securities (including “stripped” issues):

- U.S. Treasuries and Agencies
- U.S. corporate securities
- Private placement securities (including 144As, 4(2) Commercial Paper and Bank Loans)
- U.S. traditional preferred and adjustable rate preferreds
- Mortgage pass-through securities, such as: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC); savings and loans, and banks, and collateralized mortgage obligations
- Asset-backed and Commercial Mortgage-Backed Securities
- Eurodollar securities of U.S. issuers
- Foreign Government and Supra-National Agencies

Emerging Market investments:

- Limited to countries contained in the J.P. Morgan Emerging Market Bond Index Global and the Emerging Markets Local Index Plus
- Minimum quality of B-
- Instruments rated below BB- not to exceed 20% of the Emerging Market allocation in the portfolio
- Unrated securities by any of the rating agencies not to exceed 20% of the Emerging Market allocation in the portfolio
- Maximum exposure to any country rated investment grade is 5% and for countries rated below BBB- is 5%
- Holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at reasonable cost and accurate market valuations

Short-term Instruments:

- U.S. Treasury and Agency instruments
- Certificates of deposit and bankers acceptances of U.S. banks
- Repurchase and reverse repurchase agreements
- Eurodollar CDs, term deposits, and commercial paper
- U.S. and Eurodollar floating rate notes and CDs
- U.S. money market funds and bank short-term investment funds
- Foreign Government and Supra-National Agencies

Financial Section
San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Financial Futures and Options:

Futures Contracts on interest rate and foreign currency related instruments, such as:

- U.S. Treasury securities
- Government National Mortgage Association securities
- Certificates of Deposit
- Euro Treasury Deposits*
- Municipal Bond Index
- Corporate Bond Index
- Foreign Government and Supra-National securities*

Options on interest rate and foreign currency related instruments*

Interest rate and currency swaps

Credit default swaps, both long and short

Other: Fixed Income Commingled and Mutual Funds (as approved)

* Only applies to permitted investments for manager with tactical discretion to invest in Non-U.S. fixed income strategies.

Additional investment guidelines include minimum average portfolio quality of A rating (market value weighted); and, minimum credit quality at time of purchase of:

- 80% Baa/BBB* and 20% B* for a domestic core-plus fixed income manager; and
- Ba/BB* for core-plus fixed income manager with tactical discretion to invest in Non-U.S. fixed income strategies.

* Or refers to an equivalent rating by at least one of the major rating services, e.g., Moody’s, S&P, Fitch.

The permitted securities for SDCERS’ domestic convertible bond portfolio are as follows:

Convertible bonds
Convertible preferred stocks
Common stocks
Straight debt and synthetic convertibles
Financial Section

San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

SDCERS’ domestic convertible bond portfolio will generally maintain an average rating of at least BB+.

The permitted securities and derivatives for SDCERS’ International fixed income portfolio are as follows:

Developed Markets Investments
- Sovereign and supranationals
- Eurodollar bonds
- Corporates
- Mortgages of companies or governmental agencies located in developed countries

Emerging Market Investments
- Sovereign and corporate debt in countries outside the Citi World Government Bond Index ex-U.S.

Derivatives
- Interest Rate Futures
- Options and Swaptions on eligible instruments
- Interest Rate and Currency Swaps
- Foreign Exchange Forwards and Spot Transactions
- Covered put and call options may be written against bonds and currencies to generate additional income.

SDCERS’ international fixed income portfolio has the following credit and market risk parameters: minimum average portfolio quality of A rating (market value weighted); and, minimum credit quality at time of purchase of Ba/BB or equivalent rating by at least one of the major rating services, e.g., Moody’s, S&P, Fitch. Credit ratings refer to the long-term foreign currency rating.

The following tables identify the credit quality of SDCERS’ domestic and international fixed income strategies based on portfolio holdings as of June 30, 2008 and June 30, 2007.
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### Credit Quality of SDCERS' Fixed Income Strategies (Domestic & International)  
#### As of June 30, 2008

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### Credit Quality of SDCERS’ Fixed Income Strategies (Domestic & International)
#### As of June 30, 2008 (continued)

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*Corporates include convertible bonds from SDCERS’ convertible bond manager.

*Includes municipal holdings as well.
### Financial Section

**San Diego City Employees’ Retirement System**  
**Notes to the Financial Statements (continued)**  
**June 30, 2008 and June 30, 2007**

#### Credit Quality of SDCERS’ Fixed Income Strategies (Domestic & International)

**As of June 30, 2007**

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### Credit Quality of SDCERS’ Fixed Income Strategies (Domestic & International)

**As of June 30, 2007 (continued)**

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<td>NR</td>
<td>NR</td>
<td>231,166,305</td>
<td>2,703,605</td>
<td>2,703,605</td>
<td>2,703,605</td>
<td>2,703,605</td>
<td>3,571,125</td>
<td>392,840</td>
</tr>
</tbody>
</table>

**Totals**

- Corporates include convertible bonds from SDCERS’ convertible bond manager.
- Includes municipal holdings as well.
Financial Section

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk; however, GNMA securities have been included in this credit risk disclosure as AAA/Aaa and NR/NR. NR represents those securities that are not rated by one of the nationally recognized statistical rating organizations (NRSROs).

Concentration guidelines for the domestic core-plus fixed income portfolios are as follows:

- **Maximum Exposure (except U.S. Treasury/Agency Organization for Economic Co-operation and Development Government Issues):**
  - Issue
    - 2.5% - 3% of portfolio
  - Issuer
    - 2.5% - 5% of portfolio
  - Emerging Market Exposure (U.S. dollar)
    - 10% - 15% of portfolio
  - Foreign Investments*
    - 30% of portfolio
  - Foreign Currency Exposure*
    - 25% of non-U.S. dollar investments

* Only applies to permitted investments for manager with tactical discretion to invest in non-U.S. fixed income strategies.

Concentration guidelines for the international fixed income portfolio are as follows:

- In the developed market component, no more than 20% of the portfolio will be invested in any single sovereign issue.
- The maximum amount to any non-sovereign issuer (excluding AAA agencies and supranationals) will be 3%.
- The maximum exposure to emerging market countries shall not exceed 30% of the market value of the international fixed income portfolio.
- The maximum exposure to any single emerging market country rated investment grade by a major rating agency is 5% and for those countries rated below BBB- (or equivalent) is 3%.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income portfolios use duration to measure how a change in interest rates will affect the value of the portfolio.

Convertible bonds are typically not subject to interest rate risk as convertible bonds are positively correlated to interest rate movements versus other fixed income securities. In SDCERS' domestic convertible bond portfolio, there were nine securities as of June 30, 2008 and three securities as of June 30, 2007 which had interest rate sensitivity. These securities (convertible bonds and preferred stock) have been included in the presentation of the interest rate risk exposure.

The following tables identify the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2008 and June 30, 2007.
San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

SDCERS’ Fixed Income Portfolios (Domestic & International)
Portfolio Duration Analysis as of June 30, 2008

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>Effective Duration (in years)</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateralized Mortgage Obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collateralized Mortgage Obligations</td>
<td>4.24</td>
<td>$149,907,231</td>
</tr>
<tr>
<td>Corporates:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible Bonds</td>
<td>10.30</td>
<td>125,572,918</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>4.22</td>
<td>289,591,004</td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>7.43</td>
<td>19,498,282</td>
</tr>
<tr>
<td>Government &amp; Agency Obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FHLMC</td>
<td>4.80</td>
<td>38,024,532</td>
</tr>
<tr>
<td>FNMA</td>
<td>4.62</td>
<td>329,491,968</td>
</tr>
<tr>
<td>GNMA I</td>
<td>4.56</td>
<td>5,270,503</td>
</tr>
<tr>
<td>GNMA II</td>
<td>1.45</td>
<td>1,077,043</td>
</tr>
<tr>
<td>Government Issues</td>
<td>5.24</td>
<td>226,936,146</td>
</tr>
<tr>
<td>Municipals</td>
<td>8.20</td>
<td>7,982,272</td>
</tr>
<tr>
<td>Asset-Backed Securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Asset-Backed Securities</td>
<td>2.91</td>
<td>30,964,182</td>
</tr>
<tr>
<td>Short-Term / Other:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-Term</td>
<td>0.25</td>
<td>21,023,004</td>
</tr>
<tr>
<td>Options-Futures</td>
<td>0.00</td>
<td>(69,438)</td>
</tr>
<tr>
<td>Total</td>
<td>4.60</td>
<td>$1,245,269,647</td>
</tr>
</tbody>
</table>

¹Fair Value is different from Plan Net Asset investments by $21,250,550, as the Fair Value amount includes preferred stock holdings that have a duration, and it excludes credit default swaps, mutual funds, and short-term investment funds for which duration cannot be calculated.
### SDCERS’ Fixed Income Portfolios (Domestic & International)
#### Portfolio Duration Analysis as of June 30, 2007

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>Effective Duration (in years)</th>
<th>Fair Value¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateralized Mortgage Obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collateralized Mortgage Obligations</td>
<td>3.73</td>
<td>$148,322,124</td>
</tr>
<tr>
<td>Corporates:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible Bonds</td>
<td>2.05</td>
<td>116,461,044</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>2.50</td>
<td>201,746,911</td>
</tr>
<tr>
<td>Government &amp; Agency Obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury STRIP</td>
<td>11.87</td>
<td>3,876,103</td>
</tr>
<tr>
<td>FHLMC</td>
<td>4.89</td>
<td>32,261,836</td>
</tr>
<tr>
<td>FNMA</td>
<td>4.54</td>
<td>170,308,034</td>
</tr>
<tr>
<td>GNMA I</td>
<td>0.73</td>
<td>2,243,576</td>
</tr>
<tr>
<td>GNMA II</td>
<td>0.80</td>
<td>1,375,475</td>
</tr>
<tr>
<td>Government Issues</td>
<td>5.82</td>
<td>271,594,509</td>
</tr>
<tr>
<td>Municipals</td>
<td>11.10</td>
<td>1,682,684</td>
</tr>
<tr>
<td>Asset-Backed Securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card Receivables</td>
<td>0.52</td>
<td>900,844</td>
</tr>
<tr>
<td>Other Asset-Backed</td>
<td>4.96</td>
<td>45,242,575</td>
</tr>
<tr>
<td>Short-Term / Other:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-Term</td>
<td>0.00</td>
<td>46,611,411</td>
</tr>
<tr>
<td>Total</td>
<td>4.27</td>
<td>$1,042,627,126</td>
</tr>
</tbody>
</table>

¹Fair Value is different from Plan Net Asset Investments by $2,685,836, which consists of interest rate swaps and other short-term instruments for which duration cannot be calculated.

SDCERS’ domestic core-plus fixed income manager that has tactical discretion to invest in non-U.S fixed income strategies is restricted to a duration of +/- 2 years from that of the effective duration of the Lehman Brothers Aggregate Index. The other domestic core-plus fixed income manager is restricted to a duration of +/- 1 year from that of the effective duration of the Lehman Brothers Aggregate Index. The international fixed income manager should have a duration within +/- 2 years of the Citi World Government Bond Index ex-U.S.
San Diego City Employees’ Retirement System  
Notes to the Financial Statements (continued)  
June 30, 2008 and June 30, 2007

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2008 and June 30, 2007, SDCERS had no single issuer that exceeded 5% of total investments, excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments. With respect to the concentration of credit risk, specific investment guidelines with each manager place limitations on the maximum holdings in any one issuer.

Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments, or securities. As of June 30, 2008, and June 30, 2007, 100% of SDCERS’ investments were held in SDCERS’ name, and SDCERS is not exposed to custodial credit risk related to these investments. SDCERS is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. Cash and cash equivalents on deposit with SDCERS’ custodial bank totaled $69,052,516 as of June 30, 2008, and $94,380,408 as of June 30, 2007.

SDCERS’ custodial bank acts as its securities lending agent. SDCERS is exposed to custodial risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of securities on loan collateralized by these non-cash vehicles totaled $118,694,052 and $29,535,197 as of June 30, 2008, and June 30, 2007, respectively and are at risk as the collateral for these loaned securities is not held in SDCERS’ name and cannot be sold without a borrower default. The cash collateral held by SDCERS’ custodian in conjunction with the securities lending program, which totaled $674,085,233 and $854,630,428 as of June 30, 2008, and June 30, 2007, is also at risk as it is invested in a pooled vehicle managed by the custodian. The investment characteristics of the collateral pool are disclosed in the Securities Lending section in the Notes to the Financial Statements.
Financial Section

San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following tables represent securities held in a foreign currency as of June 30, 2008 and June 30, 2007.

Foreign Currency Risk

As of June 30, 2008
(All Values are in U.S. Dollars)

<table>
<thead>
<tr>
<th>Local Currency Name</th>
<th>Cash</th>
<th>Equity</th>
<th>Fixed Income</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Dollar</td>
<td>$845,437</td>
<td>$18,803,635</td>
<td>$13,161,937</td>
<td>$32,811,009</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>173,782</td>
<td>17,329,482</td>
<td>2,844,857</td>
<td>20,348,122</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>195,696</td>
<td>55,033,265</td>
<td>-</td>
<td>55,228,961</td>
</tr>
<tr>
<td>Czech Koruna</td>
<td>-</td>
<td>5,526,956</td>
<td>-</td>
<td>5,526,956</td>
</tr>
<tr>
<td>Danish Krone</td>
<td>1,804</td>
<td>7,381,012</td>
<td>4,453,740</td>
<td>11,836,555</td>
</tr>
<tr>
<td>Euro Currency</td>
<td>1,545,296</td>
<td>213,331,045</td>
<td>81,006,541</td>
<td>295,882,883</td>
</tr>
<tr>
<td>UK Pound</td>
<td>1,025,796</td>
<td>146,672,975</td>
<td>11,070,546</td>
<td>158,769,317</td>
</tr>
<tr>
<td>Hong Kong Dollar</td>
<td>579,939</td>
<td>29,468,972</td>
<td>-</td>
<td>30,048,911</td>
</tr>
<tr>
<td>Indonesian Rupiah</td>
<td>-</td>
<td>4,563,362</td>
<td>-</td>
<td>4,563,362</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>2,302,950</td>
<td>138,106,832</td>
<td>52,193,439</td>
<td>192,603,220</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>1,242</td>
<td>3,926,488</td>
<td>-</td>
<td>3,927,730</td>
</tr>
<tr>
<td>Norwegian Krone</td>
<td>444,317</td>
<td>1,086,348</td>
<td>-</td>
<td>1,530,665</td>
</tr>
<tr>
<td>New Zealand Dollar</td>
<td>-</td>
<td>906,694</td>
<td>-</td>
<td>906,694</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>14,907</td>
<td>8,005,486</td>
<td>18,741,075</td>
<td>26,761,468</td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>237,438</td>
<td>3,546,311</td>
<td>-</td>
<td>3,783,750</td>
</tr>
<tr>
<td>South African Rand</td>
<td>-</td>
<td>4,915,551</td>
<td>-</td>
<td>4,915,551</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$7,368,604</td>
<td>$658,604,414</td>
<td>$183,472,135</td>
<td>$849,445,153</td>
</tr>
</tbody>
</table>

1The foreign exchange exposure in SDCERS’ international equity small cap value portfolio (an institutional mutual fund investment) is not included in this disclosure.
Foreign Currency Risk\(^1\)
As of June 30, 2007
(All Values are in U.S. Dollars)

<table>
<thead>
<tr>
<th>Local Currency Name</th>
<th>Cash</th>
<th>Equity</th>
<th>Fixed Income</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Dollar</td>
<td>$210,217</td>
<td>$20,319,570</td>
<td>$9,346,737</td>
<td>$29,876,524</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>-</td>
<td>910,592</td>
<td>-</td>
<td>910,592</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>66,984</td>
<td>13,586,687</td>
<td>2,561,692</td>
<td>16,215,363</td>
</tr>
<tr>
<td>Danish Krone</td>
<td>30,227</td>
<td>1,057,475</td>
<td>13,074,230</td>
<td>14,161,932</td>
</tr>
<tr>
<td>Euro Currency</td>
<td>615,883</td>
<td>324,331,673</td>
<td>71,099,845</td>
<td>396,047,401</td>
</tr>
<tr>
<td>Hong Kong Dollar</td>
<td>15,115</td>
<td>13,082,503</td>
<td>-</td>
<td>13,097,618</td>
</tr>
<tr>
<td>Indonesian Rupiah</td>
<td>6,876</td>
<td>4,384,378</td>
<td>-</td>
<td>4,391,254</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>1,501,736</td>
<td>149,724,036</td>
<td>48,859,798</td>
<td>200,085,570</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>-</td>
<td>1,822,359</td>
<td>-</td>
<td>1,822,359</td>
</tr>
<tr>
<td>New Zealand Dollar</td>
<td>-</td>
<td>1,331,198</td>
<td>-</td>
<td>1,331,198</td>
</tr>
<tr>
<td>Norwegian Krone</td>
<td>2,986</td>
<td>9,012,402</td>
<td>-</td>
<td>9,015,388</td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>50,801</td>
<td>9,585,256</td>
<td>-</td>
<td>9,636,057</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>1,399</td>
<td>27,789,906</td>
<td>1,623,788</td>
<td>29,415,093</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>402,693</td>
<td>20,556,058</td>
<td>5,434,886</td>
<td>26,993,540</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>22,025</td>
<td>35,090,550</td>
<td>-</td>
<td>35,112,575</td>
</tr>
<tr>
<td>UK Pound</td>
<td>355,537</td>
<td>124,304,230</td>
<td>11,057,609</td>
<td>135,717,376</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,282,482</strong></td>
<td><strong>$756,888,873</strong></td>
<td><strong>$163,058,585</strong></td>
<td><strong>$923,229,940</strong></td>
</tr>
</tbody>
</table>

\(^1\)The foreign exchange exposure in SDCERS' international equity small cap value portfolio (an institutional mutual fund investment) is not included in this disclosure.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as an investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended to settle trades. A significant component of the diversification benefit of non-domestic investments comes from foreign currency exposure. As such, SDCERS does not have a policy to hedge against fluctuations in foreign exchange rates. SDCERS' investment managers may hedge currencies at their discretion pursuant to their specific investment guidelines included in each of their investment management agreements.

**Derivative Instruments**

SDCERS’ investment managers, as permitted by their specific investment guidelines, may enter into transactions involving derivative financial instruments, consistent with the objectives established by the Board’s Investment Policy Statement. These instruments include futures, options and swaps, but by Board policy, may not be used to leverage SDCERS’ portfolio, i.e., to use derivatives to increase the portfolio’s notional exposure to any given asset class. These instruments are used primarily to enhance a portfolio’s performance and reduce the portfolio’s risk or volatility. The notional or contractual amount of futures contracts as of June 30, 2008 and June 30, 2007 was $417,353,965 and $730,275,105, respectively. The fair value of options and swaps, included in the short-term investments line on the Statement of Plan Net Assets, was ($1,636,403) and ($2,692,337) as of June 30, 2008 and June 30, 2007, respectively.
Financial Section

San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery on a specific financial instrument on a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk.

Option contracts provide the purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the purchaser chooses to exercise the option. SDCERS uses exchange-traded and over-the-counter options. Options are sold and proceeds are received to enhance fixed income portfolio performance. Option contracts sold were predominately on money market and short-term instruments of less than one-year to maturity. In call option contracts, if interest rates remained steady or declined during the option contract periods, the contracts would expire unexercised. By contrast, in put option contracts, if interest rates rose sufficiently to result in the purchase of the securities on or before the end of the option periods, this would occur at prices attractive to the portfolio manager.

Swap agreements are used to modify investment returns or interest rates on investments. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts and could expose investors to credit risk in the event of non-performance by counterparties.

Investments Highly Sensitive to Interest Rate Changes

SDCERS has investments that contain terms that increase the sensitivity of their fair values to increasing interest rates. The total value of securities that are more highly sensitive to interest changes in the portfolio as of June 30, 2008, and June 30, 2007 are depicted in the table below.

<table>
<thead>
<tr>
<th>June 30, 2008</th>
<th></th>
<th></th>
<th>June 30, 2007</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market Value</td>
<td>Percent of Fixed Income Portfolio</td>
<td>Market Value</td>
<td>Percent of Fixed Income Portfolio</td>
</tr>
<tr>
<td>Asset Backed Securities</td>
<td>$3,825,605</td>
<td>0.313%</td>
<td>$24,727,475</td>
<td>2.38%</td>
</tr>
<tr>
<td>Interest Only Strips</td>
<td>1,442,261</td>
<td>0.118</td>
<td>4,783,568</td>
<td>0.46</td>
</tr>
<tr>
<td>Inverse Floating Rate Notes</td>
<td>3,774,227</td>
<td>0.308</td>
<td>4,356,327</td>
<td>0.42</td>
</tr>
<tr>
<td>Holdings with Greater 10 Years Duration</td>
<td>63,873,052</td>
<td>5.218</td>
<td>45,991,951</td>
<td>4.42</td>
</tr>
</tbody>
</table>

Although SDCERS holds such investments, this risk is mitigated by diversification of issuer, credit quality, maturity and security selection.

Real Estate

SDCERS’ target allocation to real estate is 11%. The real estate investment program is structured with a target allocation of approximately 30% in stable core real estate and approximately 70% allocated to enhanced, high return and opportunistic real estate opportunities. The 70% target is divided between REIT securities (25%) and limited partnership investments in commingled real estate funds (45%). No more than 40% of SDCERS’ real estate portfolio is allocated to non-U.S. real estate investment opportunities pursuant to a policy adopted by the Board in FY 2007. As SDCERS adds non-U.S. investments to its real estate portfolio, new capital commitments will be made to pool funds that target enhanced and high return strategies. Unfunded capital commitments as of June 30, 2008 totaled $156,889,035. As of June 30, 2008 and June 30, 2007, real estate investments totaled $487,530,569 and $440,972,250, respectively.
San Diego City Employees’ Retirement System  
Notes to the Financial Statements (continued)  
June 30, 2008 and June 30, 2007

Securities Lending

SDCERS has entered into an agreement with State Street to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral. A simultaneous agreement is entered into by which State Street agrees to return the collateral plus a fee (rebate of interest earned on the collateral) to the borrower in the future for return of the same securities originally lent. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages SDCERS’ securities lending program and receives cash (United States currency and foreign currency), securities issued or guaranteed by the United States Government, sovereign debt rated “A” or better, Canadian provincial debt, convertible bonds, and irrevocable letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers are required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and, (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

During FY 2008 and FY 2007, SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to State Street on behalf of SDCERS for securities borrowed. In addition, State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return or pay distributions on a loaned security. There were no such failures by any borrower during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street. Non-cash collateral (securities and letters of credit) cannot be pledged or sold without a borrower default and are therefore not reported as an asset of SDCERS for financial reporting purposes.

As of June 30, 2008, and June 30, 2007, securities on loan collateralized by cash had a fair value of $652,974,378, and $851,415,438, respectively, and a collateral value of $674,085,233 and $854,630,428, respectively, which were reported in the assets and liabilities in the accompanying Statements of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. As of June 30, 2008, and June 30, 2007, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of $118,694,052 and $29,535,197, respectively, and a collateral value of $123,657,711 and $34,074,568, respectively, which were not reported in the assets or liabilities in the accompanying Statements of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. The total collateral pledged to SDCERS at fiscal year end June 30, 2008, and June 30, 2007, for its securities lending activities was $797,742,944 and $888,704,996, respectively.

The cash collateral received for lent securities is invested by State Street, together with the cash collateral of other lenders of securities of qualified tax-exempt plans, in a collective investment pool. Because the securities loans were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. As of June 30, 2008, this investment pool had an average duration of 41.84 days and an average weighted maturity of 395.61 days for USD collateral. As of June 30, 2007, this same investment pool had an average duration of 68.25 days and an average weighted maturity of 532.81 days. Beginning in FY 2007, the securities lending program was expanded to allow the acceptance of Euro (EUR) denominated collateral. As of June 30, 2008, the Euro collateral pool had an average duration of 37 days and an average weight maturity of 603 days. As of June 30, 2007, this same Euro collateral pool had an average duration of 49 days and an average weighted final maturity of 871 days.
Financial Section

San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

When lending its securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk and collateral reinvestment risk. However, State Street is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, and all rules, regulations and exemptions from time to time promulgated and issued under the authority of those laws.

4. Contributions

SDCERS’ funding policy provides for periodic plan sponsor contributions at actuarially determined rates designed to accumulate sufficient assets to pay vested benefits as they are earned by SDCERS’ members. For FY 2008 contributions, the Normal Cost and Actuarial Accrued Liability were determined using the Projected Unit Credit (PUC) actuarial funding method. Beginning in FY 2009, contributions are calculated under the Entry Age Normal (EAN) actuarial funding method, in accordance with methodology changes approved by the Board in September and October 2006.

In FY 2006, the City paid the Annual Required Contribution (ARC) at a full actuarially-determined rate using the PUC method (see Note 10. Legal Action in the Notes to the Financial Statements). The City made contributions above this amount from the City tobacco revenue bond proceeds (FY 2006 only) plus the transfer of the City’s Retirement UAL Reserve Fund (FY 2006 and FY 2007). In FY 2008, the City contributed the ARC plus an additional amount to ensure no negative amortization of the UAL and to reimburse SDCERS for assets spent on prior year’s retiree health expenses. The Port and the Airport both make annual plan sponsor contributions to SDCERS based upon the ARC as determined by SDCERS’ actuary. In addition, the Port made contributions above this amount in FY 2007, and the Airport made contributions above this amount in both FY 2007 and FY 2008.

The City’s June 30, 2006 Actuarial Valuation used a 27-year amortization period that was required by the Gleason settlement. Beginning with the June 30, 2007 Actuarial Valuation, the City’s UAL will be amortized over a closed 20-year period, and the first payment was made in FY 2009 on July 1, 2008. The ARC formula now includes an amount to ensure there is no negative amortization of the City’s UAL during the 20 year period. The Port’s UAL is being funded as a level percent of payroll over a 30-year, closed amortization period that began July 1, 1991 (14 years remaining as of the June 30, 2007 actuarial valuation). The Airport’s UAL is being funded over an 18.5-year closed amortization period that began January 1, 2003 (14 years remaining as of the June 30, 2007 actuarial valuation).

The ARC and the amount of contributions made to SDCERS by the City for the three year period from 2005 to 2006 were restated in the Schedule of Plan Sponsor Contributions. (This Schedule is located in the Required Supplementary Information later in this Financial Section.) The ARC amounts for all prior years were recalculated by the City’s actuarial firm, Actuarial Service Co., during the City’s FY 2003 audit performed by the certified public accounting firm KPMG. The ARC amounts were restated to reflect the cumulative impacts of contribution under-funding that occurred during the years 1997 through 2005 and include 13th check and Corbett benefits as an actuarial liability, which had previously been excluded.

The following tables illustrate the required plan sponsors’ contribution rates as calculated annually by SDCERS’ actuary, Cheiron. The PUC actuarial funding methodology was used to compute the contribution rates for FY 2007 and FY 2008, while EAN methodology was used for the FY 2009 contribution rates.
### Fiscal Year 2008 Contribution Rates (As of July 1, 2007)

**City of San Diego (June 30, 2006, Actuarial Valuation)**

<table>
<thead>
<tr>
<th>Member Class</th>
<th>Normal Cost</th>
<th>Amortization Payment</th>
<th>Total Contribution Rate</th>
<th>Total Contribution Rate if paid at the beginning of the year (July 1, 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>11.41%</td>
<td>19.53%</td>
<td>19.67%</td>
<td>20.70%</td>
</tr>
<tr>
<td>Elected Officers</td>
<td>19.53%</td>
<td>14.07%</td>
<td>18.24%</td>
<td>10.57%</td>
</tr>
<tr>
<td>Police</td>
<td>19.67%</td>
<td>18.24%</td>
<td>38.94%</td>
<td>28.53%</td>
</tr>
<tr>
<td>Fire</td>
<td>20.70%</td>
<td>10.57%</td>
<td>38.94%</td>
<td>28.53%</td>
</tr>
<tr>
<td>Lifeguard</td>
<td>17.96%</td>
<td>10.55%</td>
<td>28.53%</td>
<td>24.95%</td>
</tr>
</tbody>
</table>

**Unified Port of San Diego (June 30, 2006, Actuarial Valuation)**

<table>
<thead>
<tr>
<th>Member Class</th>
<th>Normal Cost</th>
<th>Amortization Payment</th>
<th>Total Contribution Rate</th>
<th>Total Contribution Rate if paid at the beginning of the year (July 1, 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>14.24%</td>
<td>19.11%</td>
<td>18.50%</td>
<td>15.53%</td>
</tr>
<tr>
<td>Executives</td>
<td>19.11%</td>
<td>4.11%</td>
<td>23.22%</td>
<td>19.64%</td>
</tr>
<tr>
<td>Safety</td>
<td>18.50%</td>
<td>4.30%</td>
<td>22.80%</td>
<td>18.83%</td>
</tr>
</tbody>
</table>

**San Diego County Regional Airport Authority (June 30, 2006, Actuarial Valuation)**

<table>
<thead>
<tr>
<th>Member Class</th>
<th>Normal Cost</th>
<th>Amortization Payment</th>
<th>Total Contribution Rate</th>
<th>Total Contribution Rate if paid at the beginning of the year (July 1, 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Members</td>
<td>13.11%</td>
<td>-1.90%</td>
<td>11.21%</td>
<td>10.79%</td>
</tr>
</tbody>
</table>

*Rates assume that contributions are made uniformly during the plan year.*
### FY 2007 Contribution Rates (As of July 1, 2006)

<table>
<thead>
<tr>
<th>Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:</th>
<th>City of San Diego (June 30, 2005, Actuarial Valuation)</th>
<th>Unified Port of San Diego (June 30, 2005, Actuarial Valuation)</th>
<th>San Diego County Regional Airport Authority (June 30, 2005, Actuarial Valuation)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General</td>
<td>Elected Officers</td>
<td>Police</td>
</tr>
<tr>
<td>Normal Cost</td>
<td>11.26%</td>
<td>19.93%</td>
<td>19.61%</td>
</tr>
<tr>
<td>Total Contribution Rate</td>
<td>21.13</td>
<td>50.21</td>
<td>38.54</td>
</tr>
<tr>
<td>Total Contribution Rate if paid at the beginning of the year (July 1, 2006)</td>
<td>20.33</td>
<td>48.31</td>
<td>37.09</td>
</tr>
</tbody>
</table>

1Rates assume that contributions are made uniformly during the plan year.
## FY 2009 Contribution Rates (As of July 1, 2008)

<table>
<thead>
<tr>
<th>Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:</th>
<th>City of San Diego (June 30, 2007, Actuarial Valuation)</th>
<th>Unified Port of San Diego (June 30, 2007, Actuarial Valuation)</th>
<th>San Diego County Regional Airport Authority (June 30, 2007, Actuarial Valuation)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General</td>
<td>Elected Officers</td>
<td>Police</td>
</tr>
<tr>
<td>Normal Cost&lt;sup&gt;1&lt;/sup&gt;</td>
<td>9.87%</td>
<td>20.64%</td>
<td>18.59%</td>
</tr>
<tr>
<td>Amortization Payment&lt;sup&gt;1,2&lt;/sup&gt;</td>
<td>13.84%</td>
<td>27.10%</td>
<td>23.07%</td>
</tr>
<tr>
<td>Total Contribution Rate</td>
<td>23.71%</td>
<td>47.74%</td>
<td>41.66%</td>
</tr>
<tr>
<td>Total Contribution Rate if paid at the beginning of the year (July 1, 2008)</td>
<td>22.81%</td>
<td>45.94%</td>
<td>40.08%</td>
</tr>
</tbody>
</table>

1 Rates assume that contributions are made uniformly during the plan year.

2 To avoid "negative amortization," the amortization payment includes full interest on the UAL.
Members are required to contribute a percentage of their annual salary to the Group Trust. Contributions vary according to the member's age at the time of enrollment and member's group (e.g., safety, general and elected officers).

Member average contribution rates for each member class are shown below. Averages shown apply to salary amounts over $400 per month in the case of members with social security integrated benefits.

<table>
<thead>
<tr>
<th></th>
<th>FY 2008 Member Average Contribution Rates</th>
<th>FY 2007 Member Average Contribution Rates</th>
<th>FY 2009 Member Average Contribution Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of San Diego</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Members¹</td>
<td>9.87%</td>
<td>9.86%</td>
<td>10.06%</td>
</tr>
<tr>
<td>Safety Members¹</td>
<td>11.87%</td>
<td>12.07%</td>
<td>12.69%</td>
</tr>
<tr>
<td>Unified Port of San Diego</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Members¹</td>
<td>9.27%</td>
<td>9.30%</td>
<td>9.83%</td>
</tr>
<tr>
<td>Safety Members¹</td>
<td>11.93%</td>
<td>11.94%</td>
<td>12.74%</td>
</tr>
<tr>
<td>San Diego County Regional</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Airport Authority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Members</td>
<td>9.44%</td>
<td>9.46%</td>
<td>10.02%</td>
</tr>
</tbody>
</table>

¹General Members includes Elected Officers; Safety Members includes Police, Fire and Lifeguard Members, as applicable.

All or part of the member's contribution rate may be subject to a reduction for member contributions paid by the employer, as determined through annual meet and confer negotiations between the employers and employee bargaining groups. The rates above (actuarially determined amounts) are shown before any applicable reduction. Member contributions paid by the employer and related accumulated interest are not refunded to the members at termination; only a member's actual contributions made plus credited interest are refunded to a member at termination of employment, upon the member's request.

In accordance with the FY 2008 salary ordinance, the City paid the following portion of members' contributions, stated as a percentage of a member's salary:

- For Elected Officers: 5.89%
- For General Members: 1.40% to 5.40%
- For Police Members: 4.10%
- For Fire Members: 4.30%
- For Lifeguard Members: 3.30% to 4.30%

The City's aggregate member contributions made to SDCERS are discounted (prior to being contributed to SDCERS) by the anticipated savings from member terminations from City employment. The discount is 5.00% for general members and 1.00% for safety members.
For FY 2008, the Port paid the following portion of members’ contributions, stated as a percentage of a member’s salary:

- For General Members: 5.00% to 7.00%
- For Safety Members: 8.80%
- For Management Members: 6.5% to 10.3%

For FY 2008, the Airport paid the following portion of members’ contributions, stated as a percentage of a member’s salary:

- For General Members: 7.00%
- For Management Members: 8.50%

Neither the Port nor the Airport discounts its aggregate member contributions to SDCERS by any anticipated savings from member terminations from Port or Airport employment.

SDCERS’ members are allowed to purchase certain types of service credit, usually related to periods of missing service credit or missing employee contributions. The San Diego Municipal Code provides that City members may purchase service credit. For Airport members and Port members, their respective plan documents outline the purchase of service credit provisions.

Beginning in 1997, City and Port members became eligible to purchase an additional five years of service credit, in addition to their actual employment service credit. Airport members became eligible to purchase an additional five years of service credit at inception of their Plan on January 1, 2003. The five-year purchase may be applied toward the vesting requirements for the City members, but not for Port or Airport members. The option to purchase an additional five years of service credit was discontinued by the City, Port, and Airport for employees hired on or after February 16, 2007, October 1, 2005 and October 3, 2006, respectively.

A member may pay for purchases of service credit by: lump sum payments from personal funds; direct transfers from the City’s Supplemental Pension Savings Plan, 401(k) account, Deferred Compensation account, qualified IRAs, or any other qualified retirement plan; or bi-weekly installment payment plans. Both pre-tax and post-tax payment plans are permitted. The length of the installment contracts varies but generally may not exceed the lesser of 15 years or the member’s first eligible retirement date.

The table below describes a member’s cost to purchase one year of service credit:

<table>
<thead>
<tr>
<th></th>
<th>Cost as of November 2003 (% of Current Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of San Diego</td>
<td></td>
</tr>
<tr>
<td>General Members</td>
<td>27%</td>
</tr>
<tr>
<td>Safety Members</td>
<td>37%</td>
</tr>
<tr>
<td>Legislative Members</td>
<td>50%</td>
</tr>
<tr>
<td>Port/Airport</td>
<td>As of July 2004</td>
</tr>
<tr>
<td>General Members</td>
<td>32%</td>
</tr>
<tr>
<td>Safety Members</td>
<td>38%</td>
</tr>
<tr>
<td>Executive Members</td>
<td>34%</td>
</tr>
</tbody>
</table>
As of June 30, 2008, a total of 802 members were making payments on installment contracts compared to 945 at June 30, 2007. Service credit purchased under an installment contract is not an actuarial accrued liability of SDCERS until the purchase is paid by the member. A receivable for purchased service contracts (both installment contracts and pending lump sum payments) totaling $14,340,795 and $17,247,817 has been included in the accompanying Statements of Plan Net Assets for the DB Plan at June 30, 2008 and June 30, 2007, respectively.

5. Reserve Balances

The San Diego Municipal Code authorizes the Board to establish reserve accounts based on the advice of its actuary. Annual adjustments to the Trust Fund’s reserves are a result of realized investment gains or losses and member and plan sponsor contributions received. These changes are distributed in accordance with the San Diego Municipal Code.

Reserve balances as of June 30 each year, valued at:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserved for Investments in Properties</td>
<td>$522,829</td>
<td>$201,470</td>
</tr>
<tr>
<td>Reserved for Receivables</td>
<td>14,336,726</td>
<td>17,220,695</td>
</tr>
<tr>
<td>Reserved for Encumbrances</td>
<td>349,598</td>
<td>2,673,387</td>
</tr>
<tr>
<td>Reserved for Members’ Contributions</td>
<td>666,616,991</td>
<td>610,083,552</td>
</tr>
<tr>
<td>Reserved for Plan Sponsors’ Contributions</td>
<td>391,096,458</td>
<td>441,957,553</td>
</tr>
<tr>
<td>Reserved for Current Retired Members</td>
<td>2,227,434,010</td>
<td>1,957,279,341</td>
</tr>
<tr>
<td>Plan Continuation Liability</td>
<td>1,196,019,884</td>
<td>1,013,802,149</td>
</tr>
<tr>
<td>Fund Deficit - Equivalent to Plan Continuation Liability</td>
<td>(1,196,019,884)</td>
<td>(1,013,802,149)</td>
</tr>
<tr>
<td>Reserved for Supplemental COLA</td>
<td>14,212,561</td>
<td>15,280,975</td>
</tr>
<tr>
<td>Undistributed Earnings Reserve</td>
<td>801,612,591</td>
<td>846,068,996</td>
</tr>
<tr>
<td><strong>Total Reserves</strong></td>
<td><strong>$4,116,181,764</strong></td>
<td><strong>$3,890,765,969</strong></td>
</tr>
</tbody>
</table>

1 Total Reserves will differ from Plan Net Assets Held in Trust for Payment of Benefits in the audited financial statements as investments are stated at fair value (market value) at June 30 of each year. Unrealized gains at June 30, 2007 and 2008 were $790,954,491 and $268,665,322, respectively.

**Reserved for Investments in Properties.** This represents the un-depreciated cost of SDCERS office equipment.

**Reserved for Receivables.** This represents the balance of funds expected to be received in the future consisting mainly of member contributions for purchase of service credit installment contracts and any invoiced contributions.

**Reserved for Encumbrances.** This represents the balance of contractual liabilities incurred but not yet paid at year-end.

**Reserved for Members’ Contributions.** This represents the accumulated contributions, plus accumulated allocated interest, held on account for all active and inactive members.

**Reserved for Plan Sponsors’ Contributions.** This represents the otherwise unallocated accumulated contributions, plus accumulated allocated interest, of all participating plan sponsors.

**Reserved for Current Retired Members.** This represents funds sufficient, based upon advice of the actuary, to pay present and future benefits of current retired members. Upon retirement, members’ contribution balances are transferred from Reserved for Members’ Contributions to this reserve, along with sufficient funds from the Plan Sponsors’ Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.
San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Plan Continuation Liability. This represents the portion of the plan’s actuarial accrued liabilities that were not funded as of the prior valuation date. It is calculated as the actuarial present value of credited projected benefits minus the actuarial value of assets and totaled for all three plan sponsors; this is the same as the Unfunded Actuarial Liability (UAL) totaled for all three plan sponsors. Values are based on the June 30, 2007 actuarial valuation.

Fund Deficit - Equivalent to Plan Continuation Liability. This represents the dollar amount not reserved for the portion of UAL of the City’s, Port’s, and Airport’s plans.

Reserved for Supplemental COLA. These are funds sufficient to pay this benefit to retirees whose effective date of retirement was prior to June 30, 1982 for the rest of their lives or until this reserve is depleted, whichever comes first.

Undistributed Earnings Reserve. This represents the balance of earnings remaining after the annual distribution to the members’ and plan sponsors’ reserve accounts in accordance with SDCERS’ Board-established assumed rate of interest. At the beginning of each fiscal year, SDCERS’ Board credits all Surplus Undistributed Earnings to the Reserve for Plan Sponsors’ Contributions in order to reduce SDCERS’ current liabilities. Due to the delay in issuing previous CAFRs, the FY 2005 surplus was credited to the Reserve for Plan Sponsors’ Contributions in November, 2007. The City’s external auditor has completed their review of the FY 2006 calculations and their report will be submitted for approval at the December Board meeting. The FY 2007 surplus will be credited upon completion of the City’s external auditor review of the associated calculations and Board approval.

6. Funded Status and Actuarial Methods and Assumptions

The funded status of each plan as of June 30, 2007 is as follows (dollar amounts in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Actuarial Value of Assets (AVA) (a)</th>
<th>Actuarial Accrued Liability (AAL) (b)</th>
<th>Unfunded AAL (UAL) (b-a)</th>
<th>Funded Ratio (a / b)</th>
<th>Covered Payroll (c)</th>
<th>UAL as a Percentage Of Covered Payroll (b – a) / c</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>$4,413,411</td>
<td>$5,597,653</td>
<td>$1,184,242</td>
<td>78.8%</td>
<td>$512,440</td>
<td>231.1%</td>
</tr>
<tr>
<td>Port</td>
<td>230,585</td>
<td>246,538</td>
<td>15,953</td>
<td>93.5%</td>
<td>37,160</td>
<td>42.9%</td>
</tr>
<tr>
<td>Airport</td>
<td>50,812</td>
<td>46,637</td>
<td>(-4,175)</td>
<td>109.0%</td>
<td>21,957</td>
<td>-19.0%</td>
</tr>
</tbody>
</table>

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.
Additional information as of the latest actuarial valuation follows:

<table>
<thead>
<tr>
<th></th>
<th>City</th>
<th>Port</th>
<th>Airport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial cost method</td>
<td>Entry age normal</td>
<td>Entry age normal</td>
<td>Entry age normal</td>
</tr>
<tr>
<td>Amortization method</td>
<td>Level percent, closed</td>
<td>Level percent, closed</td>
<td>Level percent, closed</td>
</tr>
<tr>
<td>Remaining amortization period</td>
<td>20 years, with no negative amortization</td>
<td>14 years, with no negative amortization</td>
<td>14 years, with no negative amortization</td>
</tr>
<tr>
<td>Asset valuation method</td>
<td>Smoothed market, 25% current market and 75% prior AVA</td>
<td>Smoothed market, 25% current market and 75% prior AVA</td>
<td>Smoothed market, 25% current market and 75% prior AVA</td>
</tr>
<tr>
<td>Actuarial Assumptions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Investment rate of return</td>
<td>8.0%</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>- Wage inflation</td>
<td>4.25%</td>
<td>4.25%</td>
<td>4.25%</td>
</tr>
<tr>
<td>- Additional merit increase</td>
<td>0.5% - 7.5%</td>
<td>0.5% - 7.5%</td>
<td>0.5% - 4.5%</td>
</tr>
<tr>
<td>- Cost of living increase</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

The June 30, 2007 actuarial valuations were based on the same actuarial assumptions used in the June 30, 2006 valuation but reflect a number of methodology changes. The changes, which were adopted by the Board in September and October 2006 and incorporated into the June 30, 2006 valuation, with additional changes adopted by the Board in March 2007 and incorporated into the June 30, 2007 valuation, as follows:

- The return to using the most widely-accepted actuarial funding method, Entry Age Normal (EAN), instead of the Projected Unit Credit (PUC) actuarial funding method. The EAN method will determine contribution rates beginning in FY 2009;
- A 20-year amortization period for the pay down of the June 30, 2007 UAL (City only). Last year’s June 30, 2006 Actuarial Valuation for the City used a 27-year amortization period that was required to be used in the 2006 Valuation by the Gleason judgment;
- To avoid any “negative amortization” of the UAL, the plan sponsors will pay a minimum of the full interest on the UAL plus the Normal Cost;
- The use of the Expected Value of Assets asset smoothing method; and
- The removal of all liabilities for future payments that are projected to be in excess of the maximum benefit level payable from a tax qualified retirement plan under Internal Revenue Code Section 415. (In the 2006 Valuation, only liabilities for then active members in excess of Section 415 had been removed.)

These changes, incorporated into the June 30, 2007 actuarial valuation, affect the City, Port, and Airport’s FY 2009 ARC. The FY 2008 ARC was based upon the June 30, 2006 actuarial valuation prepared using the PUC funding method, a 27-year UAL amortization policy (City only), no provision for negative amortization, and with actuarial asset values set to market value.

Actuarial Valuations for the City, Port, and Airport are available on-line at www.sdcers.org.
San Diego City Employees’ Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Actuarial Experience Study and Assumption Changes

In July 2008, the Board received Cheiron’s Experience Study Results and Recommendations for the period covering July 1, 2004 to June 30, 2007. At the September 2008 Board meeting, the following Actuarial Assumption changes recommended by Cheiron in the Experience Study were formally approved:

- Retirement rates by age were replaced by retirement rates by years of service and were increased;
- Termination rates by age and service were increased;
- Disability rates by age were decreased;
- Active and retiree mortality rates were updated to new tables;
- The wage inflation assumption was lowered from 4.25% to 4.0%; and
- The rate of investment return assumption was lowered from 8.0% to 7.75%.

The financial impact of all economic and demographic assumption changes will be determined after the June 30, 2008 actuarial valuation is completed. Based on the June 30, 2007 valuation data, Cheiron estimated that the net impact of the new assumptions will produce results very close to those determined on the prior assumptions. The complete Experience Study is on-line at www.sdcers.org.

7. IRS Tax Determination Letter and Voluntary Correction Program Filings

SDCERS is a qualified governmental defined benefit plan under the Internal Revenue Code (IRC). To confirm and maintain its qualified status, SDCERS filed with the IRS an application for a Determination Letter in July 2005. At the same time, SDCERS filed an initial request for a compliance statement under the IRS’ Voluntary Correction Program (VCP).

The initial VCP filing addressed a correction relating to the City’s Presidential Leave Program for presidents of certain labor organizations that represent City employees. Subsequently, SDCERS made additional VCP filings concerning compensation limits; minimum distribution requirements; eligible rollover distribution compliance; minimum required distributions from the Deferred Retirement Option Program (DROP); disability benefit overpayments; conversion of annual leave to purchased service credits; retiree healthcare benefits and health administrative expenses; benefit and compensation limits; and remedial plan amendments.

On December 20, 2007, the IRS issued a Compliance Statement to SDCERS that affirmed the qualified status of the SDCERS Plan and imposed no fines or penalties on SDCERS or the City, and identified 14 failures and acceptable corrections based upon the SDCERS’ VCP filings. The Compliance Statement required that certain corrective actions be taken (including passage of a tax compliance ordinance approved by the IRS) on or before June 9, 2008. All required corrections were completed before the June 9, 2008 deadline.

In the Compliance Statement, the IRS noted certain amounts that needed to be restored to SDCERS: (1) $31,618,356, including interest, for retiree medical benefits paid from the SDCERS Trust Fund per City Ordinance between 1982 and 1991; (2) $2,211,895, including interest, for unreimbursed costs of administering the retiree medical benefit between 1982 and July 1, 2006; (3) $4,209,221, including interest, for plan benefits paid from the SDCERS Trust Fund that exceeded IRC Section 415(b) limits, from fiscal year 1995 until the date of the Compliance Statement; and (4) $1,222,543, including interest, for disability benefits overpaid during fiscal years 2001 through 2005. However, the IRS agreed that the City had already fully paid these amounts through $142,642,180 of supplemental contributions to SDCERS in excess of the annual required contributions during fiscal years 2006, 2007 and 2008.
The Compliance Statement also required that SDCERS reduce or eliminate the benefits of certain SDCERS members, and that SDCERS pursue recovery of overpayments that have been made to these members. Some overpayments have been collected in full and for others the collection process is underway. On January 25, 2008, the IRS issued SDCERS a favorable Determination Letter, confirming SDCERS’ tax-qualified status.

The Determination Letter was conditioned upon the Board’s adoption of certain IRS-approved Board rules, and the City’s adoption of the technical compliance ordinance, on or before April 25, 2008. Both actions were completed in accordance with the Determination Letter.

8. Preservation of Benefit Plan (POB Plan) Activity

With the IRS issuance of the Compliance Statement in December 2007, SDCERS stopped paying benefits above IRC Section 415(b) limits from the SDCERS Trust Fund. These benefits are now paid from the POB Plans. The POB Plans are unfunded within the meaning of the federal tax laws, requiring the plan sponsor to fund the Plans on a pay-as-you-go basis. Benefits payable from and the costs of administering the POB Plans, as determined by SDCERS and its actuary, are paid by the respective plan sponsor. To date, there have been no payments to or from the Port or Airport’s POB Plan.

The plan sponsor retains title to any assets, including cash or other investments, that they designate to pay POB Plan benefits. The City deposited $1,000,000 to its POB Plan to pay benefits for FY2008, with an additional $9,468 of interest income recorded on the funds. Actual benefits paid from the City's POB Plan in FY 2008 totaled $883,034, including $12,658 of administrative costs. The remaining balance of $126,434 will be carried forward to pay the City’s FY 2009 POB Plan expenditures, currently estimated at $1,227,044. In July 2008, the City transferred $500,000 into the POB Plan to fund FY 2009 payments and transferred another $610,078 in November 2008, for a total of $1,110,078. The POB Plan will be included in the City’s financial statements and CAFR.

9. Leases

Operating Leases

The following is a schedule of future minimum rental payments required under an operating lease entered into by SDCERS that has an initial, non-cancelable lease term in excess of one year as of June 30, 2008:

<table>
<thead>
<tr>
<th>Year Ending June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>2014-2018</td>
</tr>
<tr>
<td>2019-2023</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Rent expense related to operating leases was $53,948 for the year ended June 30, 2008.

10. Legal Action


In January 2003, a class action complaint was filed by a retired City employee (James F. Gleason) alleging that beginning in FY 1997 and continuing to the date of the complaint that the City failed to contribute...
amounts required by the San Diego City Charter and San Diego Municipal Code to SDCERS. A settlement was approved by the Court in July 2004 with the City paying amounts based on the actuarially calculated rates for each fiscal year covered by the settlement.

Prior to final approval of the settlement agreement, the City made a $130 million contribution to SDCERS for FY 2005 on July 1, 2004 that was not actuarially determined. For fiscal years 2006, 2007 and 2008, the City’s contribution was determined by SDCERS’ actuary using a 30-year fixed amortization period.

In order to secure its contribution obligations for fiscal years 2006, 2007 and 2008 under the settlement, in 2005 the City provided collateral to SDCERS in the form of trust deeds on real property worth $375 million. The trust deeds were reconveyed by SDCERS in three equal annual installments of $125 million annually. The last City contribution to SDCERS under the settlement was made on July 1, 2007 (for fiscal year 2008) and the corresponding final reconveyance of the trust deeds on the City’s real property occurred in November 2007.


In June 2005, a retired City employee (William J. McGuigan) filed a class action complaint claiming that the City failed to fund the retirement plan as required by the City Charter and San Diego Municipal Code. SDCERS was not a party to the action, but it was impacted by its settlement.

In December 2006, the Court approved the settlement on the following terms: the City (1) will receive credit for having paid SDCERS $100 million in June 2006; and (2) will pay SDCERS an additional $73 million over 5 years, to be secured by property of comparable value. In SDCERS V. City of San Diego, Case Number. 841845, SDCERS contends that the City is not entitled to credit for the $100 million payment because the payment, consisting of bond proceeds from a tobacco securitization transaction, was made to SDCERS in June 2006, six months before the McGuigan matter was settled. SDCERS has not received any of the additional $73 million due under the settlement. The case has been appealed by the San Diego Police Officers’ Association (POA).

San Diego City Employees’ Retirement System v. City of San Diego and City Attorney Michael Aguirre, and related cross complaint, San Diego Superior Court, case number GIC 841845 and San Diego City Employees’ Retirement System v. City of San Diego, San Diego Superior Court, case number GIC 851286.

In January 2005, SDCERS filed a lawsuit (Case Number GIC 841845) against the City and the City Attorney, Michael Aguirre, seeking a judicial declaration that SDCERS is entitled to retain its own legal counsel and demanding the return of SDCERS’ privileged documents seized from certain SDCERS Board members’ City offices.

The City Attorney filed a cross-complaint on behalf of the City seeking a declaration that the City Attorney is entitled to represent SDCERS as its counsel, and a declaration that retirement benefits granted by the City in 1996 and 2002 under Manager’s Proposals 1 and 2 (MP1 And MP2) are illegal and void. SDCERS filed a compulsory cross-complaint to the City’s cross-complaint seeking recovery of all monies owed by the City to SDCERS but not paid because of MP1 and MP2.

In July 2005, SDCERS filed a second lawsuit (Case Number GIC 851286) seeking a judicial determination of the legality of paying contested retirement benefits to its members. The City cross-complained seeking to “roll-back” retirement benefits approved by the City Council in November 2002 on the grounds that the benefits had been illegally granted. SDCERS filed a compulsory cross-complaint seeking damages for the cost of the benefits approved by the City Council. These two cases (GIC 841845 and GIC 851286) were consolidated.

SDCERS’ motion for summary adjudication on its first cause of action for a declaration that SDCERS is empowered to employ legal counsel of its own choosing for all purposes was granted on March 6, 2006. The City Attorney’s Petition for Writ of Mandate to set aside the trial court’s ruling filed with the Fourth District Court of Appeal on April 3, 2006 was denied.

Trial of this action commenced in October 2006 and was divided into three phases. Phase 1 of the trial was completed on November 29, 2006. On December 14, 2006, the Court issued its proposed statement of
decision ruling that the City: (1) is estopped by the Corbett judgment, which in 2000 increased retirement benefits for all active and retired SDCERS members, from challenging the MP1 benefits; (2) is barred from contesting the benefits of MP2 as to those beneficiaries who were class members in the Gleason litigation; and (3) cannot pursue a remedy against SDCERS for violation of debt limit laws. The Court ordered that all necessary parties must be joined before the City proceeded with the remaining relief sought in its cross-complaint and found, without prejudice, that the Unions did not carry their burden on whether the matter constitutes a justiciable controversy. The City filed an objection to the proposed statement of decision on December 27, 2006 and requested a hearing. The Court entered its final decision on Phase 1, substantially denying most of the City’s claims. The City’s writ to the Fourth District Court of Appeal was denied as was the City’s petition for review to the California Supreme Court.

The City filed an amended cross-complaint which the Court dismissed, with prejudice, on August 3, 2007, finding that the claims remaining following Phase 1 were barred by the currently-applicable statute of limitations as a matter of law. In September 2007, judgment was entered in SDCERS’ favor in the benefits-related litigation filed by SDCERS in July 2005.

The City appealed the Court’s ruling in both cases. On October 9, 2007, the Court stayed all proceedings pending the City’s appeal. On October 24, 2007, SDCERS filed a motion to dismiss the City’s appeal with the Fourth District Court of Appeal. On November 15, 2007, the Court of Appeal ordered that SDCERS’ Motion to Dismiss would be considered with the appeal. On December 8, 2008, the Appellate Court dismissed the appeal finding that the appeal was premature. The case will be remanded to the trial court for trial on the issues presented by SDCERS’ cross-complaint. If SDCERS prevails on its cross-complaint, the financial impact to SDCERS would be an increase in funding, potentially in excess of $248 million.

**City of San Diego v. San Diego City Employees’ Retirement System**, San Diego Superior Court, case number 37-2007-00077604-CU-MC-CTL.

In October 2007, the City filed a declaratory relief action against SDCERS for a judicial declaration that changes to Municipal Code section 24.1201.1, which was amended by ordinance on January 17, 2007, and became effective on February 16, 2007 eliminating: (1) eligibility to participate in the Deferred Retirement Option Plan (DROP), (2) elimination of the “15th check” benefit; (2) elimination of the right to purchase up to five years of additional service credit and (4) elimination of retiree health benefits applies to all employees hired after July 1, 2005. SDCERS demurred to the complaint on the grounds that the City failed to name as defendants those individual employees whose retirement benefits would be affected by a determination of the effective date of the amendments to Municipal Code section 24.1201.1. SDCERS’ demurrer was sustained in March 2008. The City has filed an amended complaint naming a defendant class of employees.

**City of San Diego v. San Diego City Employees’ Retirement System**, San Diego Superior Court, case number 37-2007-00081912-CU-WM-CTL.

In February 1997, the City approved amendments to the Municipal Code permitting employees to purchase up to five years of additional service credit towards their retirement benefits. The Code requires that employees pay the amount the Board “determines to be the employer and employee cost” of the service credit. Since 1997, nearly 6,000 City employees have entered into contracts to purchase service. Between 1997 and November 2003, the former SDCERS Board charged a single price per year of service for all general employees and another single price for all safety employees. During that time period, City-approved increases in retirement benefits increased the value of each year of service credit. In November 2003, the former SDCERS Board increased the price of future PSC purchases. Those prices have remained constant since then.

Beginning in September 2007, the SDCERS Board undertook a thorough review of the PSC program. SDCERS’ actuary, Cheiron, has advised the SDCERS Board that the purchased service credit rates in place for contracts entered into since November 2003 cover the full projected cost to the System. Cheiron has also confirmed that the prices charged prior to that date did not cover the full projected cost of purchased service credits.
with the shortfall totaling an estimated $146 million. This shortfall has been included in the System's UAL since the inception of the PSC program and is being recovered through the Annual Required Contribution payments made by the SDCERS' plan sponsors. These issues also affect the Port and Airport and their respective employees, although to a lesser extent than the City. The SDCERS Board carefully considered its options and announced on November 16, 2007 that it had determined, by a unanimous vote of 8-0, to allow the existing purchase of service contracts to remain as formulated and to continue to amortize the shortfall through the existing unfunded actuarial liability.

In November 2007, the City, through the City Attorney, filed a Petition for Writ of Mandate seeking to set aside the Board’s decision not to seek revisions to thousands of purchase-of-service contracts entered into by SDCERS' members between 1997 and November 2003. The Petition also sought an order that the Board “take no further action absent full compliance with San Diego Municipal Code Sec. 24.1312.” The City Council later voted to proceed only against non-retirees and the City filed a First Amended Writ Petition. On October 15, 2008, the court continued the Hearing on Petition to November 10, 2008 and requested supplemental briefing on the impact of language contained in San Diego City Charter section 143. On November 13, 2008, the Court issued its final ruling ordering that the Board set aside its November 16, 2007 action. The Court held that SDCERS’ November 2007 decision to continue to amortize the funding shortfall through the City's existing unfunded actuarial liability was contrary to SDMC sec. 24.1312 and City Charter section 143, which requires that “the City's contributions shall be substantially equal to that required of employees” but that the City ‘shall not be required to contribute in excess of that amount, except in the case of financial liabilities accruing under any new retirement plan or revised retirement plan because of past service of employees.” The Court found that at least part of the funding shortfall did not accrue under a “new or revised retirement plan because of past service of employees” because at least some of the service credits were purchased after the retroactive increases to the retirement factor multiplier were established. The Court found that it was unlawful to charge the City for the portion of the shortfall resulting from service credits purchased between the establishment of the new rates in August 2003 and November 1, 2003. The Court declined to order that the Board take no further action absent full compliance with the Municipal Code. The ruling, as worded by the court, is unclear as to what, if any action, SDCERS must take. SDCERS is working with its counsel to evaluate the decision and is unable to determine the impact of the decision on the system at this time.

San Diego Police Officers' Association (POA) v. Michael Aguirre, et al., U.S. District Court, Southern District of California, case number 05CV1581.

In August 2005, the POA as a representative body filed a complaint for damages, declaratory and injunctive relief against the City Attorney, the City, SDCERS, former Retirement Administrator Larry Grissom, past and present members of the City Council, certain former Board members, the former City Auditor, and the past and present City Managers. The POA alleged that the City had engaged in unfair labor negotiation tactics and asserted claims related to MP1 and MP2 and healthcare benefits. Judgment was entered in favor of defendants and the action was dismissed in August 2007.

The POA filed its notice of appeal in September 2007, but did not appeal the District Court's ruling that SDCERS cannot be assessed monetary damages. The appeal is now pending before the Ninth Circuit Court of Appeals. Oral argument was held on October 23, 2008.


In July 2006, Erica Aaron filed a class action lawsuit on behalf of active and retired members of the POA naming SDCERS and others as defendants. The lawsuit is essentially identical in substance to POA v. Aguirre, Case No. 05CV1581. The primary difference between the class action and the representative action is that class members are permitted to seek their individual alleged damages from defendants, which is an amount that far exceeds what the POA could seek as a representative body.
San Diego City Employees’ Retirement System
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SDCERS won its motion for summary judgment on September 2, 2008. On October 1, 2008, the plaintiffs filed an appeal in the Ninth Circuit Court of Appeals.


In September 2007, the POA filed a complaint in Superior Court for damages, declaratory and injunctive relief against the City Attorney, the City, SDCERS, various past and present members of the City Council, various former Board members, the former City Auditor, two former City Managers and a former Deputy City Manager. The allegations in this complaint mirror those in POA v. Aguirre, Case No. 05CV1581 concerning alleged improprieties surrounding the passage and implementation of MP1 and MP2. The POA initiated this action when the District Court refused to exercise supplemental jurisdiction over the State law claims after dismissing on summary judgment all of the POA’s Federal law claims.

After a series of successful demurrers and motions to strike filed by both SDCERS and its co-defendants, the POA filed a Second Amended Complaint on June 12, 2008. On July 15, 2008, SDCERS filed a demurrer and motion to strike the Second Amended Complaint. The motions were heard on October 31, 2008 at which time the parties stipulated to stay the case pending a decision in SDCERS v. City of San Diego, Case No. GIC 841845.

United States of America v. Ron Saathoff, et al., U.S. District Court, Southern District of California, case number 06CR0045-BEN.

A Federal Grand Jury was impaneled to investigate issues relating to whether the City made material misrepresentations in certain bond disclosures regarding the method by which it funds its pension system, and potential conflicts of interest by certain Board members and staff relating to MP2. In January 2006, the Grand Jury filed indictments against former Board members, Ron Saathoff, Cathy Lexin, and Terri Webster, as well as SDCERS’ former Retirement Administrator, Lawrence B. Grissom, and SDCERS’ former General Counsel, Loraine Chapin. The indictment states charges arising from alleged violations of Title 18, U.S.C. Section 371, conspiracy to commit wire and mail fraud; Title 18, U.S.C. Sections 1343 and 1346, mail fraud; and Title 18, U.S.C. Section 2, Aiding and Abetting. A motion by the defense to remove the trial judge was denied in May 2008. Trial dates, which were scheduled for March 2008, have been vacated. In October 2008, the U.S. Attorney’s Office amended the indictment to include additional wire and mail fraud charges.

Pursuant to a Board Resolution approved by the Board in March 2006, SDCERS has entered into defense agreements with Mr. Grissom and Ms. Chapin. The indemnity agreement is secured by collateral and requires repayment to SDCERS of all attorneys’ fees in the event of any conviction or guilty plea arising from this action. In FY 2008, SDCERS paid $105,385 in defense costs for Mr. Grissom and $118,031 in defense costs for Ms. Chapin. The total defense costs paid to date are $717,250 for Mr. Grissom and $515,705 for Ms. Chapin.


In June 2008, Judie Italiano, former president of the San Diego Municipal Employees’ Association (MEA), and the MEA filed a claim against SDCERS, its current and former Board members and current and former employees and agents pursuant to the Tort Claims Act. Presenting a claim under the Act is a prerequisite to initiating litigation against a public entity such as SDCERS. Claims are asserted against SDCERS, its current and former Board members and current and former employees and agents for breach of contract, breach of pension agreements, negligence, breach of fiduciary duty, misrepresentation and deprivation of due process.

The claim arises from an IRS decision that SDCERS lacked the legal authority to pay any pension benefits based upon the City’s Presidential Leave Benefit.

On December 19, 2007, SDCERS received a Compliance Statement from the IRS regarding the operation of SDCERS’ plan. The Compliance Statement was signed by SDCERS’ Board President on December 20, 2007 and ratified by the SDCERS’ Board of Administration at its December 2007 meeting. The Compliance
Statement arose from SDCERS' participation in the IRS' Voluntary Correction Program, which resulted in a complete review of SDCERS' plan and operations. Among other things, the IRS concluded that SDCERS was not legally entitled to pay Ms. Italiano benefits based upon her service as president of the MEA, which is not a SDCERS' plan sponsor.

The IRS decision required that SDCERS recalculate Ms. Italiano's benefit, using only her City service and salary to establish eligibility for and the amount of her retirement allowance. As a result, Ms. Italiano was not eligible for a retirement benefit because she did not have sufficient years of service with the City to qualify for retirement. SDCERS terminated Ms. Italiano's retirement allowance effective December 2007. In addition, since Ms. Italiano had been collecting a retirement allowance, SDCERS is seeking to collect from Ms. Italiano approximately $275,000 in retirement benefits paid up to the termination of her retirement allowance. The IRS also required that SDCERS return to the MEA contributions accepted by SDCERS for the president's union service.

In the claim, Ms. Italiano and the MEA assert that the Presidential Leave Benefit was included in a contractual agreement between Ms. Italiano's former employer, the City of San Diego and the MEA; and, thus, SDCERS is required to pay Ms. Italiano a retirement allowance based on the Presidential Leave Benefit. They further dispute that there has been any overpayment to Ms. Italiano. Italiano seeks the restoration of her pension benefits as well as other damages, including emotional distress and attorneys' fees she claims as the result of SDCERS ratification of the IRS Compliance Statement.

The claim was denied by operation of law 45 days after it was served upon SDCERS. On November 14, 2008, a complaint was filed in the San Diego Superior Court for unconstitutional impairment of contract; violation of public policy and negligence against the City of San Diego, its City Council, San Diego City Retirement System and its Board of Administration. The complaint has not yet been served on SDCERS or its Board of Administration.

Claims by Police Officers' Association and Police Officer Union Presidents, Garry Collins, Harry Eastus and James Farrar against SDCERS, designated SDCERS' employees and the City of San Diego

In June 2008, former presidents of the San Diego Police Officers' Association (POA), Garry Collins, Harry Eastus and James Farrar, and the POA filed a claim pursuant to the Tort Claims Act. Presenting a claim under the Act is a prerequisite to initiating litigation against a public entity such as SDCERS. Claims are asserted against SDCERS, designated SDCERS' employees and the City of San Diego for breach of contract, breach of pension agreements, negligence, breach of fiduciary duty and misrepresentation.

The claim arises from the same IRS decision described in the claim of MEA and Italiano described above regarding the IRS decision that SDCERS lacked the legal authority to pay any pension benefits based upon the City's Presidential Leave Benefit.

Collins, Eastus and Farrar all served as presidents for the POA. The IRS Compliance Statement also addressed the retirement benefits for Collins, Eastus and Farrar. When the Compliance Statement was ratified, Eastus was already retired and receiving a monthly retirement allowance. Collins and Farrar had entered the Deferred Retirement Option Plan (DROP). When a member enters DROP, they cease to accrue any additional benefits, and the member's retirement allowance is calculated based on the member's years of service and salary at the time of entrance into DROP. This amount is credited to the Member's DROP Participation Account each month until the member exits DROP and terminates employment. The IRS decision required that SDCERS recalculate and correct the retirement allowance of Eastus and DROP accounts for Collins and Farrar using only their City service and salary and to return to the POA contributions accepted by SDCERS for the presidents' union service. As a result, Collins and Farrar's retirement allowance was reduced with a resulting reduction in each of their DROP accounts. Mr. Eastus' retirement allowance was also reduced.

The claimants seek specific performance and/or damages, including damages for emotional distress and attorney's fees they claim as the result of SDCERS ratification of the IRS Compliance Statement.

The claims were denied by operation of law 45 days after they were served on SDCERS.
Financial Section

San Diego City Employees’ Retirement System
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11. Subsequent Events

San Diego City Firefighters, Local 145 and Robert Blizzard v. San Diego City Employees’ Retirement System and City of San Diego, San Diego Superior Court, case number 37-2008-000932170-CU-OE-CTL.

In October 2008, the San Diego City Firefighters, Local 145 and Robert Blizzard, a paramedic, filed a Petition for Writ of Mandate as a representative action seeking to compel SDCERS to recalculate Mr. Blizzard’s retirement benefits, and all other class representatives, to include that portion of his salary paid at time and one-half and to calculate benefits for all similarly situated paramedics in the same manner. SDCERS’ counsel is evaluating the case and will timely file responsive pleadings.


In October 2008, a class action was filed by Mark Annis on behalf of active and retired San Diego police officers. The lawsuit asserts causes of actions for violation of public policy, violation of the Meyer-Millas-Brown Act, breach of fiduciary duty, breach of trust, breach of contract, fraud and seeking an accounting, declaratory relief and a writ of mandate. The claims arise from the alleged “systemic under-funding of the San Diego pension system, which rendered it actuarially unsound.” SDCERS’ counsel is evaluating the claim and will timely file responsive pleadings.


On October 2, 2008, a class action was filed by Erica Aaron on behalf of active and retired San Diego police officers. The lawsuit asserts causes of action for violation of public policy, violation of the Meyer-Millas-Brown Act, breach of fiduciary duty, breach of trust, breach of contract, seeking an accounting, writ of mandate and declaratory relief. The claims arise from the alleged “systemic under-funding of the San Diego pension system, which rendered it actuarially unsound.” SDCERS counsel is evaluating the claim and will timely file responsive pleadings when SDCERS is served with the complaint. It is not possible at this time to estimate the financial impact of this case.

IRS Private Letter Ruling on Preservation of Benefit Plans

In November 2006, SDCERS filed a request with the IRS for a private letter ruling approving the Preservation of Benefit (POB) Plans established by the City, the Unified Port District and the Airport Authority. The IRS split this request into three separate requests – one for each plan sponsor. The Board established a separate trust fund for each POB Plan in February 2007, with the intention that calendar year 2007 would be the first year the POB Plans would be funded and pay current year benefits.

On October 28, 2008, the IRS issued three Private Letter Rulings approving the three POB Plans and confirming that each plan is a qualified governmental excess benefit arrangement under IRC Section 415(m), established to pay promised benefits to retirees and beneficiaries of the DB Plans that exceed the IRC Section 415(b) limits.

Pursuant to the Compliance Statement, the IRS has required that the POB Plans be administered on a fiscal year basis until FY 2009. Thereafter, they would be administered on a calendar year basis.

Plan Sponsors’ Contributions

On July 1, 2008, SDCERS received a total of $172.0 million in FY 2009 Plan Sponsor contributions: $161.7 million from the City, $73 million from the Unified Port District, and $3.0 million from the Airport Authority.

Each plan sponsor paid its contribution at the beginning of the fiscal year in order to fully invest its contributions for the entire fiscal year and to take advantage of an actuarial discount in the calculation of the annual required contribution.

Undistributed Earnings Reserve

Prior to October 11, 2008, the Municipal Code provided a definition of “Surplus Investment Earnings,” which
San Diego City Employees’ Retirement System
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were comprised of investment earnings (defined in Municipal Code Section 24.0103 as the sum of net interest received and net realized gains from the sale of investments) less certain expenses and the Corbett and 15th check benefits. SDCERS supported the elimination of the use of investment earnings to pay these benefits, and since the City’s FY 2006 actuarial valuation, Cheiron has reflected the associated contingent liabilities in the City’s valuation liabilities. As a result, beginning in FY 2008, the actuarial cost of the benefits has been paid for as a part of the City’s annual required contribution.

On September 2, 2008, the City passed an ordinance that eliminated the concept of surplus investment earnings as a source of paying benefits. This ordinance took effect on October 11, 2008. The passage of this ordinance brings the plan document into harmony with SDCERS’ current practice of including these benefits as actuarial liabilities to be paid out of plan assets but will not otherwise materially change the way SDCERS has paid the benefits in past years.

Stock Market Volatility

Like every other public sector pension systems, SDCERS is exposed to general market risk and investment values that fluctuate with market volatility. Therefore, the turmoil in the global financial markets in calendar 2008 has impacted SDCERS’ just as it has every other institutional and individual investor. The impact on SDCERS from the current market downturn will depend upon how deep the downturn is, how long it lasts, and when it occurs within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could impact the financial condition of SDCERS and the plan sponsors’ Annual Required Contribution (ARC).

SDCERS’ market investment return for the quarter ending September 30, 2008, the most recent period for which investment performance has been measured, was down 10.1%. However, market value of assets is just one variable the actuary uses to determine a plan sponsor’s ARC. For example, the actuary calculates an actuarial value of assets that spreads fluctuations in annual investment returns over a multi-year period. Other actuarial variables can also offset negative investment returns. These include favorable experience in the inflation, disability, termination, active mortality or salary increase rates. Therefore, it is difficult to estimate an accurate actuarial valuation based only on the change in the market value of assets because of the possible offsetting impact of other variables. Because of the interrelationship of so many actuarial factors, the only actuarial numbers that can be relied on for accuracy are those contained in SDCERS’ June 30 actuarial valuations.

Total Group Trust cash, cash equivalents, and investments assets were $4.818 billion as of June 30, 2008, and declined to $3.923 billion (unaudited) as of October 31, 2008. The market’s downturn since July 1, 2008 represents less than half of SDCERS’ fiscal 2009 year, however. Because the actuary uses the 12-month fiscal year’s final investment return to determine a plan sponsor’s ARC, only when the fiscal year is completed, on June 30, 2009, will the impact of the current market condition be accurately quantified as to the impact on plan sponsor ARC payments for FY 2011.

Actuarial Valuations as of June 30, 2008

On December 19, 2008, the Board received Cheiron’s actuarial valuation reports as of June 30, 2008 for the City, Port, and Airport. These reports are scheduled to be approved the the Board in January 2009. As of June 30, 2008, the funded ratio and UAL were:

<table>
<thead>
<tr>
<th></th>
<th>Funded Ratio</th>
<th>UAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>78.2%</td>
<td>$1,300.7 million</td>
</tr>
<tr>
<td>Port</td>
<td>91.2%</td>
<td>$23.6 million</td>
</tr>
<tr>
<td>Airport</td>
<td>101.7%</td>
<td>$0.9 million surplus</td>
</tr>
</tbody>
</table>

The June 30, 2008 valuations were prepared using revised assumptions approved by the Board in September 2008 following the receipt of Cheiron’s Experience Study in July 2008 (see Note 6. Funded Status and Actuarial Methods and Assumptions).

The valuations are available on-line at www.sdcers.org.
12. Restated Financial Statements

On January 20, 2009, SDCERS accounting staff discovered an error affecting the beginning FY 2008 allocation of net assets by plan sponsor. Following consultation with the SDCERS Audit Committee, the outside auditors, and plan sponsors, SDCERS has restated the FY2008 financial statements on pages 22 – 24. In addition, Administrative Expenses in the Statements of Changes in Net Plan Assets were reapportioned among the three plan sponsors to reflect the related Group Trust provisions. A summary of the net changes:

<table>
<thead>
<tr>
<th></th>
<th>City</th>
<th>Port</th>
<th>Airport</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originally reported Net Assets as of June 30, 2007</td>
<td>$4,401,304,918</td>
<td>$229,866,861</td>
<td>$50,548,681</td>
<td>$4,681,720,460</td>
</tr>
<tr>
<td>Net Change Net Assets</td>
<td>(12,159,494)</td>
<td>9,601,376</td>
<td>2,558,118</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>City</th>
<th>Port</th>
<th>Airport</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originally reported FY08 Administrative Expenses</td>
<td>15,108,211</td>
<td>630,024</td>
<td>38,111</td>
<td>15,776,346</td>
</tr>
<tr>
<td>Revised FY08 Administrative Expenses</td>
<td>14,572,788</td>
<td>881,517</td>
<td>322,041</td>
<td>15,776,346</td>
</tr>
<tr>
<td>Net Change Administrative Expenses</td>
<td>535,423</td>
<td>(251,493)</td>
<td>(283,930)</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>City</th>
<th>Port</th>
<th>Airport</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originally reported Net Assets as of June 30, 2008</td>
<td>4,115,043,644</td>
<td>217,788,320</td>
<td>52,015,122</td>
<td>4,384,847,086</td>
</tr>
<tr>
<td>Revised Net Assets as of June 30, 2008</td>
<td>4,103,419,573</td>
<td>227,138,203</td>
<td>54,289,310</td>
<td>4,384,847,086</td>
</tr>
<tr>
<td>Net Change Net Assets</td>
<td>(11,624,071)</td>
<td>9,349,883</td>
<td>2,274,188</td>
<td>-</td>
</tr>
</tbody>
</table>
San Diego City Employees’ Retirement System
Required Supplementary Information
Schedules of Funding Progress

City of San Diego
Schedule of Funding Progress
For the Ten Years Ended June 30 (1998 - 2007)
($ in Thousands)

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Valuation Assets</th>
<th>AAL</th>
<th>Valuation</th>
<th>Funded Ratio</th>
<th>UAL</th>
<th>Member Payroll</th>
<th>UAL Ratio to Member Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/07&lt;sup&gt;1&lt;/sup&gt;</td>
<td>$4,413,411</td>
<td>$5,597,653</td>
<td>78.8%</td>
<td>$1,184,242</td>
<td>$512,400</td>
<td>231.1%</td>
<td></td>
</tr>
<tr>
<td>6/30/06&lt;sup&gt;1&lt;/sup&gt;</td>
<td>3,981,932</td>
<td>4,982,699</td>
<td>79.9</td>
<td>1,000,768</td>
<td>534,103</td>
<td>187.4</td>
<td></td>
</tr>
<tr>
<td>6/30/05</td>
<td>2,983,080</td>
<td>4,377,093</td>
<td>68.2</td>
<td>1,394,013</td>
<td>557,631</td>
<td>250.0</td>
<td></td>
</tr>
<tr>
<td>6/30/04&lt;sup&gt;4&lt;/sup&gt;</td>
<td>2,628,680</td>
<td>3,997,328</td>
<td>65.8</td>
<td>1,368,648</td>
<td>540,181</td>
<td>253.4</td>
<td></td>
</tr>
<tr>
<td>6/30/03</td>
<td>2,375,431</td>
<td>3,532,626</td>
<td>67.2</td>
<td>1,157,194</td>
<td>533,595</td>
<td>216.9</td>
<td></td>
</tr>
<tr>
<td>6/30/02</td>
<td>2,448,208</td>
<td>3,168,921</td>
<td>77.3</td>
<td>720,713</td>
<td>535,157</td>
<td>134.7</td>
<td></td>
</tr>
<tr>
<td>6/30/01&lt;sup&gt;5&lt;/sup&gt;</td>
<td>2,525,645</td>
<td>2,809,538</td>
<td>89.9</td>
<td>283,893</td>
<td>481,864</td>
<td>58.9</td>
<td></td>
</tr>
<tr>
<td>6/30/00&lt;sup&gt;6&lt;/sup&gt;</td>
<td>2,459,815</td>
<td>2,528,774</td>
<td>97.3</td>
<td>68,959</td>
<td>448,502</td>
<td>15.4</td>
<td></td>
</tr>
<tr>
<td>6/30/99</td>
<td>2,033,153</td>
<td>2,181,547</td>
<td>93.2</td>
<td>148,394</td>
<td>424,516</td>
<td>35.0</td>
<td></td>
</tr>
<tr>
<td>6/30/98&lt;sup&gt;7&lt;/sup&gt;</td>
<td>1,852,151</td>
<td>1,979,668</td>
<td>93.6</td>
<td>127,517</td>
<td>399,035</td>
<td>32.0</td>
<td></td>
</tr>
</tbody>
</table>

<sup>1</sup>Reflects revised actuarial and economic assumptions.
<sup>2</sup>Reflects non-contingent Corbett benefit increases.
<sup>3</sup>Funded status was slightly overstated due to the unavailability and thus unincorporated liabilities resulting from purchases of service credit by members.
<sup>4</sup>Reflects revised actuarial assumptions.
<sup>5</sup>Reflects revised actuarial methodologies.
<sup>6</sup>Reflects revised actuarial methodologies, including the return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN). (See Actuarial Section for more details).
<sup>7</sup>Actuarial gains and losses reduce or increase the Unfunded Actuarial Liability (UAL) which being amortized over a 20-year period with no negative amortization as of the June 30, 2007 Actuarial Valuation.
### Unified Port of San Diego

**Schedule of Funding Progress**

For the Ten Years Ended June 30 (1998 - 2007)

($ in Thousands)

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Valuation Assets</th>
<th>AAL</th>
<th>Funded Ratio</th>
<th>UAL$</th>
<th>Member Payroll</th>
<th>UAL Ratio to Member Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/07(^1)</td>
<td>$230,585</td>
<td>$246,538</td>
<td>93.5%</td>
<td>$15,953</td>
<td>$37,160</td>
<td>42.9%</td>
</tr>
<tr>
<td>6/30/06(^2)</td>
<td>203,286</td>
<td>220,637</td>
<td>92.1</td>
<td>17,351</td>
<td>33,927</td>
<td>51.1</td>
</tr>
<tr>
<td>6/30/05</td>
<td>163,691</td>
<td>198,072</td>
<td>82.6</td>
<td>34,381</td>
<td>35,077</td>
<td>98.0</td>
</tr>
<tr>
<td>6/30/04</td>
<td>141,375</td>
<td>175,366</td>
<td>80.6</td>
<td>33,991</td>
<td>34,916</td>
<td>97.4</td>
</tr>
<tr>
<td>6/30/03(^3)</td>
<td>123,884</td>
<td>154,300</td>
<td>80.3</td>
<td>30,415</td>
<td>34,164</td>
<td>89.0</td>
</tr>
<tr>
<td>12/31/02(^4)</td>
<td>125,619</td>
<td>137,824</td>
<td>91.1</td>
<td>12,205</td>
<td>33,995</td>
<td>35.9</td>
</tr>
<tr>
<td>6/30/02</td>
<td>140,613</td>
<td>140,197</td>
<td>100.3</td>
<td>(416)</td>
<td>39,063</td>
<td>(1.1)</td>
</tr>
<tr>
<td>6/30/01(^5)</td>
<td>145,278</td>
<td>123,126</td>
<td>118.0</td>
<td>(22,152)</td>
<td>36,425</td>
<td>(60.8)</td>
</tr>
<tr>
<td>6/30/00</td>
<td>133,183</td>
<td>97,160</td>
<td>137.1</td>
<td>(36,023)</td>
<td>30,621</td>
<td>(117.6)</td>
</tr>
<tr>
<td>6/30/99</td>
<td>110,310</td>
<td>89,809</td>
<td>122.8</td>
<td>(20,501)</td>
<td>30,035</td>
<td>(68.3)</td>
</tr>
<tr>
<td>6/30/98(^6)</td>
<td>98,007</td>
<td>81,633</td>
<td>120.1</td>
<td>(16,374)</td>
<td>26,672</td>
<td>(61.4)</td>
</tr>
</tbody>
</table>

\(^1\)Reflects revised actuarial assumptions.

\(^2\)Reflects Andrecht Settlement.

\(^3\)Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation, as of December 31, 2002, was performed by SDCERS’ actuary to separate the Airport’s accrued liabilities and actuarial value of assets from the Port’s accrued liabilities and actuarial value of assets. All retirees remained with the Port for valuation purposes.

\(^4\)Reflects revised actuarial assumptions and benefit increases effective April 1, 2004.

\(^5\)Reflects benefit increases for Port general employees.

\(^6\)Reflects revised actuarial methodologies, including the return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN). (See Actuarial Section for more details.)

\(^7\)Actuarial gains and losses reduce or increase the Unfunded Actuarial Liability (UAL) which is being amortized over a closed, 30-year period which began July 1, 1991 (14 years remaining as of the June 30, 2007, actuarial valuation).
San Diego City Employees’ Retirement System
Required Supplementary Information
Notes to the Schedules of Funding Progress
For the Years Ended June 30

San Diego County Regional Airport Authority
Schedule of Funding Progress
For the Years Ended June 30 (2002 - 2007)
($ in Thousands)

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Valuation Assets</th>
<th>AAL</th>
<th>Funded Ratio</th>
<th>UAL 4</th>
<th>Member Payroll</th>
<th>UAL Ratio to Member Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/07 1</td>
<td>$50,812</td>
<td>$46,637</td>
<td>109.0%</td>
<td>($4,176)</td>
<td>$21,957</td>
<td>-19.0%</td>
</tr>
<tr>
<td>6/30/06 1</td>
<td>41,222</td>
<td>36,905</td>
<td>111.7</td>
<td>(4,317)</td>
<td>19,116</td>
<td>-22.6</td>
</tr>
<tr>
<td>6/30/05</td>
<td>28,551</td>
<td>32,603</td>
<td>87.6</td>
<td>4,051</td>
<td>17,609</td>
<td>23.0</td>
</tr>
<tr>
<td>6/30/04</td>
<td>16,225</td>
<td>23,579</td>
<td>68.8</td>
<td>7,354</td>
<td>15,606</td>
<td>47.1</td>
</tr>
<tr>
<td>6/30/03 1</td>
<td>11,142</td>
<td>16,279</td>
<td>68.4 1</td>
<td>5,137</td>
<td>11,577</td>
<td>44.4</td>
</tr>
<tr>
<td>12/31/02 1</td>
<td>11,028</td>
<td>11,526</td>
<td>95.7</td>
<td>498</td>
<td>8,871</td>
<td>5.6</td>
</tr>
</tbody>
</table>

1Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation, as of December 31, 2002, was performed by SDCERS’ actuary to separate the Airport’s accrued liabilities and actuarial value of assets from the Port’s accrued liabilities and actuarial value of assets. All retirees remained with the Port for valuation purposes.

2Reflects revised actuarial methodologies.

3Reflects revised actuarial methodologies, including the return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN). (See Actuarial Section for more details).

4Actuarial gains and losses reduce or increase the Unfunded Actuarial Liability (UAL) which is being amortized over a closed, 18.5-year period which began January 1, 2003 (14 years remaining as of the June 30, 2007, actuarial valuation).
Financial Section

San Diego City Employees’ Retirement System
Required Supplementary Information
Notes to the Schedules of Funding Progress
For the Years Ended June 30

A schedule of funding progress presents a consolidated snapshot of a retirement system’s ability to meet current and future liabilities with the assets of a retirement plan. The most recent actuarial valuation for the City, the Port and the Airport was performed as of June 30, 2007.

1. Key Actuarial Assumptions

In the June 30, 2007 valuation, the normal cost and actuarial accrued liability are determined using the Entry Age Normal (EAN) actuarial funding method. In the June 30, 2006 valuation the Projected Unit Credit actuarial funding method was used.

Key assumptions, adopted by SDCERS’ Board as of July 1, 1997, and affirmed in subsequent actuarial experience studies in 2001 and 2004, are as follows:

- Investment rate of return: 8.00%
- Wage Inflation rate: 4.25%
- Additional Merit increases: 0.50% to 7.5%

The assumed annual pension cost-of-living adjustment is generally 2% per annum, compounded.

The member statistical data on which the annual actuarial valuations were based was furnished by SDCERS and is combined by Cheiron with pertinent data on financial operations. Membership data was reviewed for reasonableness, but was not audited by the actuary.

The June 30, 2007 Actuarial Valuations were based on the same actuarial assumptions used in the June 30, 2006 valuation but reflect a number of methodology changes adopted by the SDCERS Board after careful and public consideration in September and October 2006. The methodology changes include the following:

- The return to using the most widely-accepted actuarial funding method, Entry Age Normal (EAN), instead of the PUC actuarial funding method. The EAN method will determine contribution rates beginning in FY 2009.
- A 20-year amortization period for the pay down of the June 30, 2007 UAL (City only). Last year’s June 30, 2006 Actuarial Valuation for the City used a 27-year amortization period that was required to be used in the 2006 Valuation by the Gleason judgment.
- To avoid any “negative amortization” of the UAL, the plan sponsors will pay a minimum of the full interest on the UAL plus the Normal Cost.
- The use of the Expected Value of Assets asset smoothing method.
- The removal of all liabilities for future payments that are projected to be in excess of the maximum benefit level payable from a tax qualified retirement plan under Internal Revenue Code Section 415. (In the 2006 Valuation, only liabilities for then active members in excess of Section 415 had been removed.)

Actuarial Valuations are available on-line at www.sdcers.org.

For further information regarding the actuarial valuations and assumptions, see Note 6. Funded Status and Actuarial Methods and Assumptions, and the Actuarial Section.
2. Actuarial Terms Defined

Valuation Assets: The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation. In September 2006, the board adopted a new actuarial valuation method. As part of the implementation of the new method, the Actuarial Value of Assets as of June 30, 2006 was set to market value. Beginning with the June 30, 2007 Valuation, the Actuarial Value of Assets reflects a weighted average giving 25% weight to the current market value and 75% weight to the prior year’s actuarial value, increased by expected interest and contributions and decreased by benefit payments and expenses. The old method applied a five-year average of the ratio of market value to book value to the current year’s net book value.

Actuarial Accrued Liabilities (AAL): The difference between the actuarial present value of plan benefits and the actuarial value of future normal costs.

Annual Required Contribution (ARC): The employer required contribution amount for GASB 25 disclosure purposes.

Funded Ratio: This ratio provides a measure of the plan’s overall health. The ratio is calculated by dividing the Actuarial Value of Assets by the Actuarial Accrued Liabilities (AAL). Over time, the ratio is expected to increase toward 100% in the absence of benefit improvements or modification of actuarial assumptions.

Unfunded Actuarial Liability (UAL): The difference between Actuarial Accrued Liabilities and Actuarial Value of Assets. Also called Unfunded Actuarial Accrued Liability (UAAL).

Member Payroll: Each plan sponsor’s estimated total annual compensation for all active members (covered payroll) of a retirement system, as reported in the actuarial valuation.

UAL Ratio to Member Payroll: This ratio is calculated by dividing the UAL by the Member Payroll. The ratio is a relative index of condition where inflation is present in both items. Over time, the ratio is expected to decrease toward 0% in the absence of benefit improvements or making changes in actuarial assumptions.

For further information regarding actuarial assumptions and policies, see the Actuarial and Statistical Sections.

3. Commentary

City of San Diego

As of June 30, 2007, the City had a funded status of 78.8%, using the new EAN funding method. This is compared to the City’s funded status of 79.9% as of the June 30, 2006 actuarial valuation, under the PUC method. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the City’s funded status would have been 82.6%.

The schedule for the City presented above reports the last ten years of historical funding progress information.

As of the June 30, 2007 actuarial valuation, the City’s UAL was $1.18 billion, using the new EAN funding method, compared to $1.00 billion at June 30, 2006, under the PUC method. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the City’s UAL would have been $0.932 billion.

A 20-year amortization period is being used to pay down the June 30, 2007 UAL commencing on July 1, 2008 for Fiscal Year 2009. The June 30, 2006 Actuarial Valuation for the City used a 27-year amortization period that was required by the Gleason settlement. For further information on this settlement, see Note 10. Legal Action in the Notes to the Financial Statements.
Financial Section

San Diego City Employees’ Retirement System
Required Supplementary Information
Notes to the Schedules of Funding Progress (continued)
For the Years Ended June 30

Unified Port of San Diego
As of June 30, 2007, the Port had a funded status of 93.5%, using the new EAN funding method. This is compared to the Port’s SDCERS’ funded status of 92.1% as of the June 30, 2006 actuarial valuation, under the PUC method. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the Port’s funded status would have been 95.9%.

The schedule for the Port presented above reports the last ten years of historical funding progress information.

As of the June 30, 2007 actuarial valuation, the Port had a UAL of $16.0 million using the new EAN funding method, compared to $17.4 million, under the PUC method, at June 30, 2006. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the Port’s UAL would have been $9.9 million. The Port’s UAL is being amortized over a closed 30-year period, with 14 years remaining at June 30, 2007.

San Diego County Regional Airport Authority
As of June 30, 2007, the Airport had a funded status of 109.0%, using the new EAN funding method. This is compared to the Airport’s funded status of 111.7%, under the PUC method, as of the June 30, 2006 actuarial valuation. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the Airport’s funded status would have been 115.4%.

The schedule for the Airport Authority presented above reports the last five years of historical information since its inception. The Airport Authority was established January 1, 2005 by the State of California, separate from but comprised of former Port employees, and newly hired Airport employees. An actuarial valuation as of December 31, 2002, was performed by SDCERS’ actuary to separate the actuarial value of assets and accrued liabilities from the Port.
San Diego City Employees’ Retirement System
Required Supplementary Information
Schedules of Plan Sponsor Contributions

City of San Diego
Schedule of Plan Sponsors’ Contributions
For the Six Years Ended June 30 (2003 - 2008)
($ in Thousands)

SDCERS’ actuary calculates annual employer contribution rates using the entry age normal actuarial funding methodology. The City’s Contributions Made to SDCERS have differed from the Annual Required Contributions (ARC) recommended by SDCERS’ actuary. This was approved by SDCERS’ Board in accordance with their authority under the Charter of the City of San Diego, Article IX, Section 143, Contributions.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Required Contributions (ARC)</td>
<td>$137,700(^1)</td>
<td>$162,000(^1)</td>
<td>$170,071(^2)</td>
<td>$181,284(^2)</td>
<td>$140,168(^2)</td>
<td>$91,947(^2)</td>
</tr>
<tr>
<td>Contributions Made to SDCERS</td>
<td>165,581(^3)</td>
<td>169,126(^10)</td>
<td>271,349(^9)</td>
<td>122,089(^3,8)</td>
<td>69,009(^3,5,7,8)</td>
<td>58,650(^3,4,6,8)</td>
</tr>
<tr>
<td>Difference - Over/ (Under) Contributed</td>
<td>27,881</td>
<td>7,126</td>
<td>101,278</td>
<td>(59,195)</td>
<td>(71,166)</td>
<td>(33,297)</td>
</tr>
<tr>
<td>Percentage of ARC Contributed</td>
<td>120.2%</td>
<td>104.4%</td>
<td>159.6%</td>
<td>67.4%</td>
<td>49.2%</td>
<td>63.8%</td>
</tr>
</tbody>
</table>

\(^1\) Annual Required contributions (ARC) figures provided by SDCERS’ actuary; ARC calculated using annual covered payroll.

\(^2\) The City’s ARC for the four year period from 2003 through 2006 has been recalculated by the City’s actuary in accordance with GASB 25, Par. 36, including adjustment for Corbett.

\(^3\) Adjusted contributions per City, including adjustment to reduce “contributions made” for healthcare benefit expenses paid.

\(^4\) Included in the City’s FY 2003 Contributions Made to SDCERS is a $9,923 contribution applicable to fiscal years 1997 - 2002 for the City’s net pension obligation. This resulted from the differential amount of Annual Required Contributions, as calculated by SDCERS’ actuary, versus the “Minimum City-Paid Blended Rates” employer contributions paid by the City on behalf of the Proprietary and Fiduciary Funds.

\(^5\) The FY 2004 City’s plan sponsor contribution included Annual Required Contributions for its Proprietary and Fiduciary Funds and the “Minimum City-Paid Blended Rates” for its General Funds. This contribution also included an amortization payment pursuant to the 2002 Contribution Agreement due to the City’s SDCERS’ funded status being below 82.3% as of the June 30, 2002 actuarial valuation. The City’s advanced employer contribution (payment made on July 1, 2003) represented 13.43% of the FY 2004 budgeted (covered) payroll.

\(^6\) Contributions made for 2003 were at rates per the 1996 Manager’s Proposal (MP1).

\(^7\) Contributions made for 2004 were in accordance with the 2002 Contribution Agreement (MP2). This agreement was nullified by the Gleason Settlement in 2005.

\(^8\) Contributions for 2005 were a fixed amount in accordance with the Gleason Settlement. The City’s contribution funding method during 2003 through 2005 was not one of the six actuarial cost methods approved by GASB Statement 25. As a result, a Net Pension Obligation (NPO) is included in the City of San Diego’s Comprehensive Annual Financial Report.

\(^9\) Contributions for 2006 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its Retirement UAAL SDCERS Reserve Fund year-end balance.

\(^10\) Contributions for 2007 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount by transferring its Retirement UAAL SDCERS Reserve Fund year-end balance.

\(^11\) Contributions for 2008 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City contributed an additional $20 million to ensure no negative amortization of the UAAL, and $7.3 million to reimburse SDCERS for assets spent on prior year’s retiree health expenses.
### Financial Section

**San Diego City Employees’ Retirement System**  
**Required Supplementary Information**  
**Schedules of Plan Sponsor Contributions** (continued)

#### Unified Port of San Diego  
**Schedule of Plan Sponsors’ Contributions**  
For the Six Years Ended June 30 (2003 - 2008)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Required Contributions (ARC)</strong></td>
<td>$6,900,000</td>
<td>$8,300,000</td>
<td>$8,121,319</td>
<td>$7,613,081</td>
<td>$4,594,580</td>
<td>$2,210,040</td>
</tr>
<tr>
<td><strong>Contributions Made to SDCERS</strong></td>
<td>6,900,000</td>
<td>9,300,000</td>
<td>8,121,319</td>
<td>7,613,081</td>
<td>4,594,580</td>
<td>2,210,040</td>
</tr>
<tr>
<td><strong>Difference - Over/ (Under)</strong></td>
<td>–</td>
<td>1,000,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Percentage of ARC Contributed</strong></td>
<td>100.0%</td>
<td>112.1%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

1 Annual Required Contributions (ARC) figures provided by SDCERS’ actuary; ARC calculated using annual covered payroll.  
2 ARC figures provided by plan sponsor, ARC calculated using annual covered payroll.

#### San Diego County Regional Airport Authority  
**Schedule of Plan Sponsors’ Contributions**  
For the Six Years Ended June 30 (2003 - 2008)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Required Contributions (ARC)</strong></td>
<td>$2,200,000</td>
<td>$2,600,000</td>
<td>$2,878,928</td>
<td>$2,312,309</td>
<td>$1,435,000</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Contributions Made to SDCERS</strong></td>
<td>2,520,000</td>
<td>2,961,992</td>
<td>3,300,000</td>
<td>7,625,052</td>
<td>$1,435,000</td>
<td>$248,796</td>
</tr>
<tr>
<td><strong>Difference - Over/ (Under)</strong></td>
<td>320,000</td>
<td>361,992</td>
<td>421,072</td>
<td>5,312,743</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Percentage of ARC Contributed</strong></td>
<td>114.5%</td>
<td>113.9%</td>
<td>114.6%</td>
<td>329.8%</td>
<td>100.0%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

1 Annual Required Contributions (ARC) figures provided by SDCERS’ actuary; ARC calculated using annual covered payroll.  
2 Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation was performed as of December 31, 2002, by SDCERS’ actuary to establish the Annual Required Contributions (ARC) for FY 2004. FY 2003 Contributions Made represents one-half of fiscal year 2003 accrued employer contributions paid to SDCERS by the Airport.  
3 ARC figures provided by plan sponsor, ARC calculated using annual covered payroll.
San Diego City Employees’ Retirement System
Required Supplementary Information
Notes to the Schedules of Plan Sponsors’ Contributions
For the Years Ended June 30

Trend Information
Three sources of revenues fund a retirement system: plan sponsor contributions, member contributions and investment earnings on these contributions. Each year, SDCERS’ actuary determines the amount of plan sponsor contributions (expressed as a contribution rate) required to fund benefits (current and future liabilities). Benefit schedules are calculated for each actuarial valuation from the benefit structure of the City, Port, and Airport, statistical data about SDCERS members, and current and predicted future retirees and beneficiaries. The actuary must make assumptions to estimate how many SDCERS members will terminate employment; leave on a disability retirement or service retirement; and, the average ages of members at retirement and at mortality. Finally, this data is combined with an actuarially assumed investment rate of return and assumed salary increases of the City’s, Port’s and Airport’s employees. This information is presented in actuarial valuation reports in which the actuary recommends employer contribution rates (stated as a percentage of valuation payroll) to each of the plan sponsors. The actuarially determined contribution rate percentages are applied to the annual payroll for each of the participating plan sponsors’ employees. The resulting dollar amounts, as depicted in the above schedules of plan sponsor contributions, are the Annual Required Contributions (ARC) necessary to fund the promised benefits to SDCERS’ members.

City of San Diego
The Schedule of Plan Sponsors’ Contributions for the City contains six years of historical information with respect to the ARC compared to the actual contributions made by the City.

Contributions made for FY 2003 were at rates according to the 1996 Managers’ Proposal 1 (MP1). Under this proposal, the City negotiated with SDCERS’ Board to contribute a “Minimum City-Paid Blended Rate” according to a fixed plan sponsor contribution rate schedule. This agreement established a base rate in FY 1997 (advanced payment made to SDCERS on July 1, 1996) at 7.33% of that year’s City’s budgeted/actual payroll; the scheduled contribution rates increased by 0.50% each year thereafter. This agreement between the City and SDCERS accounts for the average annual difference of 19.58% in employer contributions actually paid by the City versus the rate at which the actuary calculated required contributions under the Projected Unit Credit (PUC) actuarial funding methodology. MP1 set contribution rates through 2006; however, in 2002, the City requested changes to this agreement. The actuarial valuation of June 30, 2002 triggered a provision in MP1 to increase annual required plan sponsor contributions from the City, based on the 82.2% funded status floor.
Financial Section

San Diego City Employees’ Retirement System
Required Supplementary Information
Notes to the Schedules of Plan Sponsors’ Contributions (continued)
For the Years Ended June 30

Contributions made for FY 2004 were in accordance with the 2002 Contribution Agreement known as Managers’ Proposal 2 (MP2). This agreement arose from the City’s request, noted above, for changes to MP1. Under MP2, the City increased its FY 2004 annual plan sponsor contribution rate to 10.83% per the contribution rate schedule plus 1.06% for benefit enhancements for the City’s SDCERS general members, for a total of 11.89% versus the previous year’s 10.33% contribution rate paid by the City in FY 2003 under MP1. While MP2 provided for subsequent contribution rate increases in future fiscal years, MP2 was nullified by the Gleason settlement in FY 2005 and, as such, FY 2004 was the only year in which City contributions were determined by MP2.

Contributions for FY 2005 were a fixed amount in accordance with the Gleason settlement. This contribution method, as well as the contribution methods for FYs 2003 and 2004, was not one of the six actuarial cost methods approved by GASB Statement 25. As a result, a Net Pension Obligation is included in these years in the City of San Diego’s Comprehensive Annual Financial Report.

Contributions for FY 2006, FY 2007, and FY 2008 were made at a full actuarially-determined rate using the PUC method. In 2006 the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its dedicated UAL Reserve Fund year-end balance for both FY 2006 and FY 2007. The City made additional contributions in FY 2008 to ensure no negative amortization of the UAL and to reimburse SDCERS for assets spent on prior year’s retiree health expenses. Effective in FY 2006 through FY 2008, the City made full actuarial contributions based upon the terms of the Gleason settlement. The funding/contributions discussed above have resulted in litigation that is discussed in Note 10. Legal Action.

Unified Port of San Diego

The Schedule contains six years of historical information comparing the Port’s ARC to its contributions. Over the past six years, the Port has contributed 100% or more of the amount recommended by SDCERS’ actuary. The Port’s current funded status is 93.5%.

San Diego County Regional Airport Authority

The Schedule contains 5.5 years of historical information comparing the Airport’s ARC to its contributions. Since its inception, the Airport has contributed 100% or more of the amount recommended by SDCERS’ actuary and has a current funded status of 109.0%.

The Airport was formed effective January 1, 2003, separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. For FY 2003, the Airport made contributions to SDCERS for the January 1, 2005 to June 30, 2005 period only.
San Diego City Employees’ Retirement System
Other Supplementary Information
Supporting Schedules

SDCERS’ administrative expenses are deducted from plan assets. Fees for investment management, actuarial services, custodial bank services and other costs are netted against annual additions to plan assets to arrive at plan net assets at the end of the year as provided for in the San Diego Municipal Code.

## Budgetary Comparison Schedule
For the Years ended June 30, 2008 and June 30, 2007

<table>
<thead>
<tr>
<th></th>
<th>FY 2008</th>
<th>FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Actual Expenditures</td>
</tr>
<tr>
<td><strong>Administrative Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Personnel</td>
<td>$7,332,163</td>
<td>$6,786,633</td>
</tr>
<tr>
<td>Data Processing &amp; Special Projects</td>
<td>4,458,450</td>
<td>3,620,105</td>
</tr>
<tr>
<td>Legal/External</td>
<td>3,645,000</td>
<td>2,262,767</td>
</tr>
<tr>
<td>Disability</td>
<td>467,500</td>
<td>603,604</td>
</tr>
<tr>
<td>General Operations</td>
<td>1,963,812</td>
<td>2,503,237</td>
</tr>
<tr>
<td><strong>Total Administrative Expenses</strong></td>
<td>$17,866,925</td>
<td>$15,776,346</td>
</tr>
<tr>
<td>Investment Management Services</td>
<td>24,158,201</td>
<td>23,974,639</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$42,025,126</td>
<td>$39,750,985</td>
</tr>
</tbody>
</table>

Please see additional schedules that follow in Other Supplementary Information for a breakdown of the above categories.
Schedule of Administrative Expenses  
For the Years Ended June 30, 2008 and June 30, 2007

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Personnel</td>
<td>$6,786,633</td>
<td>$6,113,415</td>
</tr>
<tr>
<td>Data Processing &amp; Special Projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Processing and Computer Services</td>
<td>2,243,558</td>
<td>2,046,376</td>
</tr>
<tr>
<td>Contracted Services</td>
<td>1,376,547</td>
<td>3,385,219</td>
</tr>
<tr>
<td>Total Data Processing &amp; Special Projects</td>
<td>3,620,105</td>
<td>5,431,595</td>
</tr>
<tr>
<td>Legal/External</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside Legal Counsel</td>
<td>2,262,767</td>
<td>4,652,332</td>
</tr>
<tr>
<td>Disability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Consulting and Disability Review</td>
<td>603,604</td>
<td>379,718</td>
</tr>
<tr>
<td>General Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuary Services</td>
<td>671,077</td>
<td>778,595</td>
</tr>
<tr>
<td>Audit Services</td>
<td>222,471</td>
<td>128,471</td>
</tr>
<tr>
<td>Office Operations Expenses</td>
<td>395,715</td>
<td>624,236</td>
</tr>
<tr>
<td>Fiduciary Insurance</td>
<td>337,293</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>53,948</td>
<td>702,393</td>
</tr>
<tr>
<td>Travel &amp; Training</td>
<td>107,222</td>
<td>98,062</td>
</tr>
<tr>
<td>Professional Services</td>
<td>651,003</td>
<td>166,718</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>64,507</td>
<td>27,860</td>
</tr>
<tr>
<td>Total General Operations</td>
<td>2,503,237</td>
<td>2,526,335</td>
</tr>
<tr>
<td>Total Administrative Expenses</td>
<td>$15,776,346</td>
<td>$19,103,395</td>
</tr>
</tbody>
</table>
San Diego City Employees’ Retirement System  
Other Supplementary Information  
Supporting Schedules (continued)  

Schedule of Payments to Consultants  
For the Years Ended June 30, 2008 and June 30, 2007  

<table>
<thead>
<tr>
<th>Individual or Firm</th>
<th>2008</th>
<th>2007</th>
<th>Nature of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctors &amp; Disability Services</td>
<td>$269,726</td>
<td>$157,843</td>
<td>Medical Consulting</td>
</tr>
<tr>
<td>Cheiron, Inc.</td>
<td>671,077</td>
<td>732,695</td>
<td>Actuary</td>
</tr>
<tr>
<td>Legal Firms &amp; Professional Legal Services</td>
<td>2,262,767</td>
<td>4,815,793</td>
<td>Legal, Arbitration, Mediation, Court Reporting</td>
</tr>
<tr>
<td>Levi, Ray &amp; Shoup</td>
<td>433,621</td>
<td>796,156</td>
<td>Member Benefit Systems Development</td>
</tr>
<tr>
<td>Linea Solutions</td>
<td>1,975,048</td>
<td>1,953,761</td>
<td>Electronic Data Management System Consulting Project</td>
</tr>
<tr>
<td>Macias Gini &amp; O’Connell LLP</td>
<td>222,471</td>
<td>128,471</td>
<td>Audit</td>
</tr>
<tr>
<td>EMC Corporation</td>
<td>96,559</td>
<td>31,637</td>
<td>Software Support</td>
</tr>
<tr>
<td>San Diego Data Processing Corporation</td>
<td>2,033,910</td>
<td>1,970,102</td>
<td>Computer/Applications Support</td>
</tr>
<tr>
<td>Various Providers</td>
<td>578,547</td>
<td>769,899</td>
<td>Various Contractual Services</td>
</tr>
<tr>
<td>Total Payments to Consultants and Professional Service Providers</td>
<td>$8,543,726</td>
<td>$11,356,357</td>
<td></td>
</tr>
</tbody>
</table>

1 Payments to consultants and service providers are included within each of the five spending categories noted on the Schedule of Administrative Expenses.
Financial Section

San Diego City Employees’ Retirement System

Other Supplementary Information

Supporting Schedules (continued)

Schedule of Payments to Consultants
For the Year Ended June 30, 2008

SDCERS used the following Doctors’ services:
California Orthopaedic Institute Medical Associates, Inc.
  William S. Adsit, M.D.
  L. Randall Mohler, M.D.
The Neurology Center
  Michael Labatz, M.D.
Sa. California Cardiology Medical Group
  Steven Gross, M.D.
Southwest & Associates
  Hans Anderson, M.D.
  Michael Kimball, M.D.
  A. Lyle Rosenfield, M.D.
Other Doctors
  Dominick Addario, M.D.
  Daniel J. Bressler, M.D.
  William Chapman, M.D.
  William P. Curran, Jr., M.D.
  Robert M. Epsten, M.D.
  Donald Green, D.P.M.
  Richard Greenfield, M.D.
  Pierre Hendricks, M.D.
  Sohaib Kureshi, M.D.
  L. Mercer McKinley, M.D.
  Mark Mikulics, M.D.
  Robert E. Neveln, M.D.
  Laurence Saben, M.D.
  James Scalone, D.O.
  Walter W. Strauer, M.D.
  Robert Warren, M.D.
  Thomas J. Wegman, Ph.D.
  Kevin Yoo, M.D.

SDCERS paid the following Legal Firms & Professional Legal Services Firms:
Baker & McKenzie, LLP
Byrne & Nixon, LLP
Cooley Godward Kronish, LLP
Geary D. Cortes
Cox, Castle & Nicholson, LLP
Dixon, Truman & Fisher
Law Offices of Ann J. Flynn
Gibbs & Fuerst
Groom Law Group
Hay Group, Inc
Icet Miller Legal and Business Advisors
Irell & Manella, LLP
JAMS (Judicial Arbitration Services)
Lightfoot, Van de Velde, Sadowsky, et al.
Manatt, Phelps & Phillips, LLP
Olson, Hagel & Fishburn, LLP
Michael Pancer
Paul Hastings, Janofsky & Walker, LLP
Peterson & Associates
Pillsbury Winthrop Shaw Pittman, LLP
Reed Smith, LLP
Seltzer Caplan McMahon Vitek, APC
Stefel, Levitt & Weiss
Stockwell, Harris, Widom,沃尔顿 & Muehl
Warren, McVeigh & Griffin, Inc.
Howard B. Wiener

Information on fees paid to investment professionals is provided on the next page.
### Schedule of Fees Paid to Investment Professionals

For the Years Ended June 30, 2008 and June 30, 2007

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market Value of Assets Under Management</td>
<td>Basis Points</td>
</tr>
<tr>
<td>Investment Manager Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Equity Managers</td>
<td>$1,768,557,174</td>
<td>45.97</td>
</tr>
<tr>
<td>International Equity Managers</td>
<td>822,320,737</td>
<td>55.75</td>
</tr>
<tr>
<td>Domestic Fixed Income Managers</td>
<td>1,533,671,468</td>
<td>34.16</td>
</tr>
<tr>
<td>International Fixed Income Managers</td>
<td>196,873,563</td>
<td>24.07</td>
</tr>
<tr>
<td>Real Estate Managers</td>
<td>489,631,476</td>
<td>96.61</td>
</tr>
<tr>
<td>Cash</td>
<td>7,369,723</td>
<td>n/a</td>
</tr>
<tr>
<td>Total Investment Manager Fees</td>
<td>$4,818,424,140</td>
<td>48.06</td>
</tr>
<tr>
<td>Other Investment Service Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custodian Services</td>
<td>238,463</td>
<td>0.50 2</td>
</tr>
<tr>
<td>Investment Consultants</td>
<td>536,566</td>
<td>1.12 2</td>
</tr>
<tr>
<td>Investment Accounting Applications</td>
<td>41,498</td>
<td>0.09 2</td>
</tr>
<tr>
<td>Total Other Investment Service Fees</td>
<td>$816,527</td>
<td>1.70 2</td>
</tr>
<tr>
<td>Total Fees Paid to Investment Professionals</td>
<td>$23,974,639</td>
<td>50.02 2</td>
</tr>
</tbody>
</table>

1 Market Values of Assets Under Management, as of June 30, 2008, and June 30, 2007, for SDCERS’ investment managers include total investments at fair value (based on trade date), by investment strategy, as detailed in the actual asset allocation as depicted in the Investment Section of this CAFR. The audited financial statements classify SDCERS’ aggregate portfolio by security type, cash, stocks, bonds and real estate, and nets receivables and payables of cash for pending transactions (settlement date based) in each strategy.

2 June 30, 2008 - Basis Points calculation based upon $4,792,866,440 which is the average of FY 2008 Total Net Investments plus Cash and Cash Equivalents equaling $4,463,860,704 and FY 2007 Total Net Investments plus Cash and Cash Equivalents equaling $4,921,872,175.

3 June 30, 2007 - Basis Points calculation based upon $4,560,107,365 which is the average of FY 2007 Total Net Investments plus Cash and Cash Equivalents equaling $4,921,872,175 and FY 2006 Total Net Investments plus Cash and Cash Equivalents equaling $4,198,342,554.
### Statement of Changes in Assets and Liabilities

San Diego City Employee’s Retirement System Agency Fund  
City of San Diego Preservation of Benefits Fund  
As of June 30, 2008

**ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>$ -</td>
</tr>
<tr>
<td>Additions</td>
<td>1,009,467</td>
</tr>
<tr>
<td>Deductions</td>
<td>(882,733)</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>126,734</td>
</tr>
</tbody>
</table>

**LIABILITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>$ -</td>
</tr>
<tr>
<td>Additions</td>
<td>1,009,467</td>
</tr>
<tr>
<td>Deductions</td>
<td>(882,733)</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>126,734</td>
</tr>
</tbody>
</table>
3. Investments
October 27, 2008

Mr. David Wescoe
Retirement Administrator/CEO
San Diego City Employees’ Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Dear Mr. Wescoe:

This letter reviews the investment performance of the San Diego City Employees’ Retirement System (SDCERS) for the fiscal years ended June 30, 2008 (FY 2008) as compared to June 30, 2007 (FY 2007).

During fiscal year 2008 and fiscal year 2007, SDCERS’ custodian, State Street Bank and Trust Company, independently prepared the information underlying the performance data. The performance calculations were made in compliance with CFA Institute Performance Presentation Standards. Callan Associates Inc. serves as SDCERS’ independent investment consultant and evaluates SDCERS’ performance in relation to market indices, appropriate manager peer groups, and other public pension plans.

SDCERS’ primary investment objective is to prudently and expertly invest SDCERS’ assets, in accordance with governing law and industry practices, in a manner that will ensure SDCERS’ ability to pay promised benefits to its participants. In pursuit of this objective, SDCERS’ Board periodically evaluates SDCERS’ liabilities, expected contributions and potential earnings. This analysis is used to evaluate alternative investment strategies. The Board then selects a strategic investment plan that balances growth potential and acceptable risk to fund projected liabilities. A policy performance benchmark is constructed that mirrors SDCERS’ asset allocation strategy. This policy performance benchmark is a custom total fund index comprised of equity, fixed income and real estate market indices weighted in the same proportions as SDCERS’ asset allocation strategy.

**Highlights of Fiscal Year 2008**

Fiscal year 2008 was characterized by a rapid unwinding of the real estate market, a credit and liquidity crisis and a slowdown in economic growth. In an attempt to mitigate the mortgage meltdown, the Federal Reserve took aggressive measures lowering the federal funds from 5.25% to 2.0% in 7 cuts. Despite these efforts, the cost of funds to companies and individuals actually rose over the past year due to an increased level of risk aversion in the credit market which resulted in a precipitous decline in both home prices and home sales. In addition to the housing woes, the consumer also faced a surge in inflation during fiscal year 2008. Driven by a precipitous rise in commodities (crude oil, natural gas and gold were up 70%, 57% and 43% year-over-year) the Consumer Price Index hit a 17 year high of 5% in the final quarter of 2008. The combination of declining home values and mounting inflation led to an uneasy consumer. As of June 2008, the consumer confidence number, as measured by the University of Michigan’s Index of Consumer Sentiment, was at a level that hadn’t been seen in over 28 years.

Investor concern over slower economic growth from reduced consumer spending and the weakening housing market led to a drop of 13.1% in the S&P 500 for fiscal year 2008. After the economy grew at 4.8% in the quarter ending June 2007, the first quarter of fiscal 2008 showed...
another quarter of solid growth and another 4.8% GDP growth number. Following two subsequent slowing quarters where GDP fell 1.2% and rose .9%, the economy grew 3.3% in the final quarter. This growth was fueled by the immediate spending of the stimulus payments consumers received as well as an increase in exports as a result of the soft dollar. Despite the strong GDP number, the S&P 500 was unable to reverse its declining trend losing 2.7% in the quarter ended June 30, 2008.

Overall, the equity markets produced negative returns across all domestic market segments for fiscal year 2008. As is the case in most bear markets, large capitalization stocks held up better than small capitalization stocks, with the S&P 500 losing 13.1% compared to the 16.2% loss incurred by the Russell 2000. For the year, growth outperformed value by a large margin in both the large and small cap arena. The Russell 2000 growth index lost 10.8% for the year, half of what the Russell 2000 value lost. The gap between growth and value was even more pronounced among large cap securities. The S&P 500 growth index lost 5.8%, finishing well ahead of the 20.3% loss of the S&P 500 value index.

Developed international equity markets were unable to escape the spill-over of a slowing domestic economy during fiscal year 2008. The EAFE Index, after returning 27.0% in fiscal year 2007, lost 10.6% in 2008. The ACWI and ACWI ex US were also down 8.8% and 6.2% respectively for the year. Emerging Markets were the only international asset class that was able to buck the global downtrend, returning 4.9% for the fiscal year.

Interest rates ended the fiscal year lower across the curve, especially on the short end which led to a steepening of the yield curve. Despite falling interest rates, spreads sectors struggled due to a flight-to-quality that occurred throughout most of fiscal year 2008. On the back of declining interest rates and strong performance from the government sector (up 9.8%), the Lehman Aggregate gained 7.1%. Spread sectors, on the other hand, posted weak performance with asset backed securities down -2.1% and commercial mortgage backed securities up 1.1%.

**Highlights of Fiscal Year 2007**

Fiscal year 2007 saw continued vigor in the economy with strong corporate profits. However, near the end of the period, weakness in the housing market, sharply rising mortgage defaults and high energy prices increased led to increased volatility. In the third quarter of 2006, the slowdown in the housing market picked up steam and defaults on sub-prime mortgages rose. Investor concern over slower economic growth from reduced consumer spending and the weakening housing market led to a drop of more than 5% in the S&P 500 in the first quarter of 2007. After a relatively weak first quarter (+0.7%), GDP grew 3.4% in the second quarter fueled by non-residential construction, investment spending and exports. During the second quarter, the S&P 500 Index eclipsed the historical peak it set in March 2000. However, investor concerns over rising interest rates, a slowing housing market, the run-up of crude oil and the continuing subprime implosion resulted in a late-quarter slide that pushed the index down from its record high. As a counter-punch to the gloom of declining market sentiment, job growth was strong during the quarter and average hourly earnings were up from a year ago. Fixed income had a tumultuous quarter marked by re-emerging interest rate volatility, a surge in economic optimism and inflation concerns.

Overall, the capital markets produced strong returns across all asset classes for fiscal year 2007. Strong economic growth in the U.S. and abroad led to excellent equity returns with the S&P 500 and MSCI EAFE index up 20.6% and 27.0% respectively. Large capitalization stocks beat small capitalization stocks and growth stocks showed renewed leadership over the fiscal year. Interest rates ended the year lower across the curve and the yield curve returned to a more normal upward slope. The Lehman Aggregate returned 6.1% for fiscal year 2007 after posting a negative return in the quarter ended June 30, 2007. Private real estate had another good year, returning 17.2% in fiscal year 2007. Public real estate securities, after being up 21.4% through the three quarters ended March 31, 2007 sold off in the quarter ended June 30, 2007 (down 8.8%). The NAREIT Index returned 10.7% for fiscal year 2007.
SDCERS' Fiscal Year 2008 Investment Performance as Compared to Fiscal Year 2007

For the one-year period ended June 30, 2008, SDCERS’ total fund, time-weighted return of -4.7% trailed the custom policy performance benchmark return of -3.52% and also fell short of the actuarial annual rate of return assumption of 8.0%. The fiscal year 2008 total fund return trailed the fiscal year 2007 total fund return of 16.2%, which was just short of the custom policy performance benchmark return of 16.3% over the same time period.

SDCERS’ custom policy performance benchmark is comprised of the following market indices, in the percentages indicated, as of June 30, 2008:

- **Domestic Equities**
  - 22.8% S&P 500, 76% S&P 400 Mid Cap, and 7.6% Russell 2000

- **International Equities**
  - 13.6% MSCI All Country World ex. U.S. Free, 5.4% EMI World Ex-U.S.

- **Domestic Fixed Income**
  - 18.0% Lehman Brothers Aggregate, 9.0% Merrill Lynch 1-5 Year Govt/Corp, and 3.0% Merrill Lynch All Convertible

- **International Fixed Income**
  - 4.0% Citigroup Non-U.S. World Government Bond

- **Domestic Real Estate**
  - 8.3% NCREIF, and 2.8% Dow Jones Wilshire REIT

The total fund return performed above the median public pension plan in the Callan peer universe for fiscal year 2008. Long-term results consistently rank SDCERS’ performance in the top quartile of this peer universe. Specifically, over the last five years the annualized total fund return of 10.8% ranked in the 15th percentile against peers and is 120 basis points ahead of the custom policy performance benchmark on an annualized basis.

**SDCERS’ Domestic Equity Performance**

After posting a fiscal year 2007 return of 18.9%, SDCERS’ domestic equity composite returned -13.5% during the four quarters ended June 30, 2008. This performance lagged its blended domestic equity performance benchmark return of -12.6% by 90 basis points and ranked in the 62nd percentile of Callan’s public fund domestic equity database. During fiscal year 2007, the domestic equity composite return ranked in the 64th percentile in the same Callan peer universe. The domestic equity composite return fell short of the blended domestic equity performance benchmark return for the trailing three-year period, but exceeded the performance benchmark for the trailing five-year period. The SDCERS’ composite ranked in the 51st and 14th percentiles for the trailing three and five-year periods respectively among public pension plans in the Callan peer universe for both periods.

**SDCERS’ International Equity Performance**

SDCERS’ international equity composite lost 11.2% for the year ended June 30, 2008, well behind the strong return of 32.3% for fiscal year 2007. The fiscal year 2008 return underperformed the blended international equity performance benchmark return of -7.9% by 330 basis points and ranked in the 84th percentile versus other public pension plans in the Callan peer universe. Brandes underperformed its benchmark by 830 basis points and was the main detractor to the international composite. During fiscal year 2007, SDCERS’ international equity composite return ranked in the 5th percentile of the Callan peer universe. Longer-term performance for the international equity composite is also impressive when measured against the blended international equity performance benchmark and the Callan public pension plan peer universe median return. A 12.3% per annum return over a ten year period ranked the international equity composite in the 5th percentile.
**SDCERS’ Domestic Fixed Income Performance**

SDCERS’ domestic fixed income composite posted strong results in absolute and relative terms for the fiscal year ended June 30, 2008. A return of 7.7% for the trailing year ranked in the 7th percentile of public pension plans in the Callan peer universe, outpacing the blended domestic fixed income performance benchmark return of 5.7%. SDCERS’ fiscal year 2007 domestic fixed income return of 7.3% also outpaced the blended domestic fixed income performance benchmark return of 6.9% and ranked in the 17th percentile of the Callan peer universe. The domestic fixed income composite long-term annualized return exceeds the fixed income benchmark and the Lehman Aggregate and ranks in the top percentile for the three and five-year periods.

**SDCERS’ International Fixed Income Performance**

For the twelve months ended June 30, 2008, the international fixed income portfolio returned 16.7%, underperforming the international fixed income performance benchmark return of 18.7% by 200 basis points and ranked in the 63rd percentile in Callan’s peer universe. International fixed income returns were bolstered by the continued decline in the U.S. Dollar versus the Euro and the Yen. The international fixed income portfolio has performed at a level above the median public pension plan in the Callan peer universe for the trailing three and five-year periods. For the five year period ending June 30, 2008, the international fixed income portfolio produced a return of 7.1%, a premium of 320 basis points per annum over the Lehman Aggregate.

**SDCERS’ Real Estate Performance**

As a result of the bursting of the housing bubble, real estate suffered for the fiscal year. The SDCERS public real estate portfolio declined -13.8% besting the Dow Jones Wilshire REIT index by 1.5%. Over the five years ending June 2008, public real estate contributed a strong 16.6% per annum. The private real estate portfolio posted a gain of +1.6% lagging the NCREIF index for the fiscal year. The total real estate composite return of -3.0% lagged the total real estate benchmark. For the trailing three and five-year periods ended June 30, 2008, SDCERS’ real estate composite return totaled +12.4% and +16.9% annualized respectively. The five-year performance ranks SDCERS’ returns in the top 30th percentile in the Callan peer universe.

With the bursting of the housing bubble, the problems with banks, and the slowing economy, the fiscal year ended June 30, 2008 proved to be strong for fixed income and very challenging for equity. Fiscal year 2008 posted stronger fixed income returns, both domestically and internationally, than fiscal year 2007. However, equity returns, both domestically and internationally, fell far short of the positive returns of fiscal year 2007. In a very challenging year for active management, the System underperformed the target benchmark while ranking above median in Callan’s Public Fund Sponsor Universe. Over the five-year period, diversification and active management have contributed to the System’s success in exceeding both the total fund benchmark and the actuarial rate of return.

Sincerely,

Janet Becker-Wold, CFA
Senior Vice President

James A. Callahan, CFA
Executive Vice President
### San Diego City Employees’ Retirement System

#### Asset Class Investment Returns

**Performance Comparison**

*For the One-Year Periods Ended June 30, 2008 and 2007*

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
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</thead>
<tbody>
<tr>
<td><strong>SDCERS’ Domestic Equity Performance</strong></td>
<td>-13.46%</td>
<td>18.93%</td>
</tr>
<tr>
<td>Domestic Equity Benchmark, comprised of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard &amp; Poor’s 500 (60% weight)</td>
<td>-12.56%</td>
<td>19.41%</td>
</tr>
<tr>
<td>Standard &amp; Poor’s MidCap 400 (20% weight)</td>
<td>-13.12%</td>
<td>20.59%</td>
</tr>
<tr>
<td>Russell 2000 (20% weight)</td>
<td>-7.34%</td>
<td>18.51%</td>
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<tr>
<td></td>
<td>-16.19%</td>
<td>16.43%</td>
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<td><strong>SDCERS’ International Equity Performance</strong></td>
<td>-11.16%</td>
<td>32.29%</td>
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<td>International Equity Benchmark, comprised of:</td>
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<tr>
<td>MSCI AC World Free Ex-US Index (80% weight)</td>
<td>-7.88%</td>
<td>30.47%</td>
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<tr>
<td>Citigroup EMI World Ex-US Index (20% weight)</td>
<td>-6.20%</td>
<td>30.15%</td>
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<tr>
<td></td>
<td>-14.49%</td>
<td>31.69%</td>
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<tr>
<td><strong>SDCERS’ Domestic Fixed Income Performance</strong></td>
<td>7.71%</td>
<td>7.30%</td>
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<tr>
<td>Domestic Fixed Income Benchmark, comprised of:</td>
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<tr>
<td>Lehman Brothers Aggregate Bond Index (60% weight)</td>
<td>5.74%</td>
<td>6.90%</td>
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<tr>
<td>Merrill Lynch 1-5 Year Gov’t/Corp (30% weight)</td>
<td>7.12%</td>
<td>6.12%</td>
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<tr>
<td>Merrill Lynch Convertible Index, All Qualities (10% weight)</td>
<td>7.09%</td>
<td>5.55%</td>
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<td>-6.36%</td>
<td>15.38%</td>
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<tr>
<td><strong>SDCERS’ International Fixed Income Performance</strong></td>
<td>16.67%</td>
<td>2.72%</td>
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<td>International Fixed Income Benchmark, comprised of:</td>
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<tr>
<td>Citigroup Non-U.S. Gov’t Bond (100% weight)</td>
<td>18.72%</td>
<td>2.20%</td>
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<td></td>
<td>18.72%</td>
<td>2.20%</td>
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<tr>
<td><strong>SDCERS’ Real Estate Performance</strong></td>
<td>-2.95%</td>
<td>14.59%</td>
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<td>Real Estate Benchmark, comprised of:</td>
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<tr>
<td>NCREIF Property Index (75% weight)</td>
<td>2.83%</td>
<td>16.09%</td>
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<tr>
<td>Wilshire REIT Index (25% weight)</td>
<td>9.20%</td>
<td>17.24%</td>
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<td>-15.26%</td>
<td>11.68%</td>
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<tr>
<td><strong>SDCERS’ Total Fund Performance</strong></td>
<td>-4.66%</td>
<td>16.50%</td>
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<td>Total Fund Performance Benchmark, comprised of:</td>
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<tr>
<td>S&amp;P 500 (22.8%); L/B Aggr (18.0%)</td>
<td>-3.52%</td>
<td>16.25%</td>
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<tr>
<td>MSCI AC World exUS Free (13.6%)</td>
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<td>ML 1-5 Gov’t Corp (9.0%); Russell 2000 (7.6%)</td>
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<td>S&amp;P MidCap 400 (7.6%); NCREIF (8.3%)</td>
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<td>Citigroup Non-U.S. Gov’t Bond (4.0%)</td>
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<tr>
<td>Citigroup EMI World ex-US (3.4%); Wilshire REIT (2.7%)</td>
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<tr>
<td>and ML All Convertible (3.0%)</td>
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</tbody>
</table>

1 Basis of calculation is time-weighted rates of return.
### Investment Section

**San Diego City Employees’ Retirement System**

**Asset Class Investment Returns**

**Long-Term Performance**

**As of June 30, 2008**

<table>
<thead>
<tr>
<th></th>
<th>3-YEAR</th>
<th>5-YEAR</th>
<th>10-YEAR</th>
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<tbody>
<tr>
<td><strong>SDCERS’ Domestic Equity Performance</strong></td>
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<tr>
<td>Domestic Equity Benchmark, comprised of:</td>
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<tr>
<td>Standard &amp; Poor’s 500 (60% weight)</td>
<td>4.41%</td>
<td>7.58%</td>
<td>2.88%</td>
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<tr>
<td>Standard &amp; Poor’s MidCap 400 (20% weight)</td>
<td>7.45%</td>
<td>12.61%</td>
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<tr>
<td>Russell 2000 (20% weight)</td>
<td>3.79%</td>
<td>10.29%</td>
<td>5.52%</td>
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<td><strong>SDCERS’ International Equity Performance</strong></td>
<td>15.02%</td>
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<td>10.68%</td>
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<tr>
<td>International Equity Benchmark, comprised of:</td>
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<tr>
<td>MSCI AC World Free Ex-US Index (80% weight)</td>
<td>16.16%</td>
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<tr>
<td>EMI World Ex-US Index (20% weight)</td>
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<td>20.78%</td>
<td>9.65%</td>
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<td><strong>SDCERS’ Domestic Fixed Income Performance</strong></td>
<td>6.30%</td>
<td>5.84%</td>
<td>6.19%</td>
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<td>Domestic Fixed Income Benchmark, comprised of:</td>
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<tr>
<td>Lehman Aggregate Bond Index (60% weight)</td>
<td>4.09%</td>
<td>3.85%</td>
<td>5.57%</td>
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<tr>
<td>Merrill Lynch 1-5 Year Gov’t/Corp (30% weight)</td>
<td>4.56%</td>
<td>3.38%</td>
<td>5.18%</td>
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<tr>
<td>ML Convertible Index, All Qualities (10% weight)</td>
<td>5.72%</td>
<td>6.33%</td>
<td>5.81%</td>
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<td><strong>SDCERS’ International Fixed Income Performance</strong></td>
<td>6.18%</td>
<td>7.09%</td>
<td>6.76%</td>
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<td>International Fixed Income Benchmark, comprised of:</td>
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<tr>
<td>Citigroup Non-U.S. Gov’t Bond (100% weight)</td>
<td>6.65%</td>
<td>7.06%</td>
<td>6.67%</td>
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<td><strong>SDCERS’ Real Estate Performance</strong></td>
<td>12.37%</td>
<td>16.89%</td>
<td>13.02%</td>
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<td>Real Estate Benchmark, comprised of:</td>
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<tr>
<td>NCREIF Property Index (75% weight)</td>
<td>14.97%</td>
<td>14.73%</td>
<td>12.23%</td>
</tr>
<tr>
<td>Wilshire REIT Index (25% weight)</td>
<td>4.91%</td>
<td>14.52%</td>
<td>11.25%</td>
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<tr>
<td><strong>SDCERS’ Total Fund Performance</strong></td>
<td>7.78%</td>
<td>10.77%</td>
<td>7.96%</td>
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<tr>
<td>Total Fund Performance Benchmark, comprised of:</td>
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</tr>
<tr>
<td>S&amp;P 500 (22.8%); L/B Aggr (18.0%); MSCI AC World exUS Free (13.6%); ML 1-5 Gov’t Corp (9.0%); Russell 2000 (7.6%); S&amp;P MidCap 400 (7.6%); NCREIF (8.3%); Citigroup Non-U.S. Gov’t Bond (4.0%); Citigroup EMI World ex-US (3.4%); Wilshire REIT (2.7%); and ML All Convertible (3.0%).</td>
<td></td>
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</tr>
</tbody>
</table>

1 Basis of calculation is time-weighted rates of return.

2 Long-Term Performance: 3-year, 5-year and 10-year performance benchmarks may have been comprised of different indices and percentage weights due to changes in SDCERS’ asset allocation strategy over time.
### Domestic Equity Investment Managers

<table>
<thead>
<tr>
<th>Manager</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delta Asset Management</td>
<td>Los Angeles, CA</td>
</tr>
<tr>
<td>Trust Company of the West</td>
<td>Los Angeles, CA</td>
</tr>
<tr>
<td>INTECH Enhanced Investment Technologies (Janus)</td>
<td>Palm Beach Gardens, FL</td>
</tr>
<tr>
<td>Trust Company of the West</td>
<td>New York, NY</td>
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<tr>
<td>INTECH Enhanced Investment Technologies (Janus)</td>
<td>Palm Beach Gardens, FL</td>
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<tr>
<td>Trust Company of the West</td>
<td>La Jolla, CA</td>
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<tr>
<td>Dodge &amp; Cox</td>
<td>San Francisco, CA</td>
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<tr>
<td>Putnam Investments</td>
<td>Boston, MA</td>
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</table>

### Domestic Fixed Income Investment Managers

<table>
<thead>
<tr>
<th>Manager</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan West Asset Management</td>
<td>Los Angeles, CA</td>
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<tr>
<td>Pyramis Global Advisors (Fidelity)</td>
<td>Boston, MA</td>
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<tr>
<td>Nicholas Applegate Capital Management</td>
<td>San Diego, CA</td>
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<tr>
<td>Salus Capital Management, Inc.</td>
<td>Los Angeles, CA</td>
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<tr>
<td>Pacific Investment Management Company (PIMCO)</td>
<td>Newport Beach, CA</td>
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<tr>
<td>SSI Investment Management, Inc.</td>
<td>Beverly Hills, CA</td>
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</table>

### International Equity Investment Managers

<table>
<thead>
<tr>
<th>Manager</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brandes Investment Partners</td>
<td>San Diego, CA</td>
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<tr>
<td>McKinley Capital Management Inc.</td>
<td>Anchorage, AK</td>
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<tr>
<td>Grantham, Mayo, Van Otterloo &amp; Co. LLC</td>
<td>Boston, MA</td>
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<tr>
<td>Globeflex Capital, L.P.</td>
<td>San Diego, CA</td>
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### International Fixed Income Investment Managers

<table>
<thead>
<tr>
<th>Manager</th>
<th>City</th>
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</thead>
<tbody>
<tr>
<td>Rogge Global Partners</td>
<td>London, England</td>
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<tr>
<td>Pacific Investment Management Company (PIMCO)</td>
<td>Newport Beach, CA</td>
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### Real Estate Investment Managers

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<th>City</th>
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<tbody>
<tr>
<td>Capmark Investments</td>
<td>Horsham, PA</td>
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<tr>
<td>Pyramis (Fidelity) Real Estate</td>
<td>Boston, MA</td>
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<td>Colony Capital, LLC</td>
<td>Los Angeles, CA</td>
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<tr>
<td>Invesco Real Estate</td>
<td>Dallas, TX</td>
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<td>RREEF Funds</td>
<td>San Francisco, CA</td>
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<tr>
<td>Cornerstone Real Estate Advisers</td>
<td>Glastonbury, CT</td>
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<tr>
<td>Pacific Coast Capital Partners</td>
<td>El Segundo, CA</td>
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<tr>
<td>RREEF Funds (REITs)</td>
<td>Chicago, IL</td>
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</tbody>
</table>
Consistent with SDCERS’ Mission Statement, the goal of SDCERS’ investment program is to generate adequate long-term returns that, when combined with employer and employee contributions, will result in sufficient assets to pay the present and future obligations of SDCERS. The following objectives are intended to assist in achieving this goal:

- SDCERS should earn, on a long-term average basis, a total real rate of return in excess of SDCERS’ actuarial assumed rate of real return of 3.75%.
- SDCERS’ assets will be managed on a total return basis, which takes into account the considerable importance of the preservation of capital. Additionally, SDCERS follows the principle that different degrees of investment risk exist and are generally rewarded with varying degrees of return over the long term.
- SDCERS will operate in an efficient manner that fulfills its fiduciary responsibility and contributes to the overall effectiveness of the organization.

It is the purpose of SDCERS’ investment program to ensure that sufficient financial assets are available to provide SDCERS’ participants and their beneficiaries with all benefits due as specified in SDCERS’ plan documents. Therefore, the participants’ and beneficiaries’ financial interests shall take precedence over all other financial interests.

To achieve these objectives, SDCERS allocates its investment assets pursuant to a strategic, long-term perspective of the capital markets. Additionally, SDCERS models and manages its investment program based on principals outlined under the Prudent Expert standard.

These goals and objectives are found in SDCERS’ Investment Policy Statement (IPS). The IPS encompasses the investment goals, objectives and policies of the SDCERS Trust Fund. The purpose of the IPS is to assist the Board, the Investment Committee and Staff to effectively supervise and monitor SDCERS’ Investment Program.

A copy of the IPS is available upon request or on SDCERS’ website – www.sdcers.org.
San Diego City Employees’ Retirement System
Target Asset Allocation*
As of June 30, 2008 and 2007

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity Strategies</td>
<td>38.0%</td>
</tr>
<tr>
<td>International Equity Strategies</td>
<td>17.0%</td>
</tr>
<tr>
<td>Domestic Fixed Income Strategies</td>
<td>30.0%</td>
</tr>
<tr>
<td>International Fixed Income Strategies</td>
<td>4.0%</td>
</tr>
<tr>
<td>Real Estate Strategies</td>
<td>11.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

* In September 2007, private equity was added as a new asset class at a target allocation of 5%, which is expected to be funded over several years. Domestic equity allocations will be proportionally reduced from 38% to 33% in one percent increments as private equity capital is invested and the allocation increases from zero to five percent of total assets.
San Diego City Employees’ Retirement System
Actual Asset Diversification – Investments At Fair Value
As of the Years Ended June 30, 2008 and 2007

**2008**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity Strategies</td>
<td>36.7%</td>
<td>$1,768,557,174</td>
</tr>
<tr>
<td>International Equity Strategies</td>
<td>17.1%</td>
<td>822,320,737</td>
</tr>
<tr>
<td>Domestic Fixed Income Strategies</td>
<td>31.9%</td>
<td>1,533,671,468</td>
</tr>
<tr>
<td>International Fixed Income Strategies</td>
<td>4.1%</td>
<td>196,873,563</td>
</tr>
<tr>
<td>Real Estate Strategies</td>
<td>10.2%</td>
<td>489,631,476</td>
</tr>
<tr>
<td>Cash</td>
<td>0.0%</td>
<td>2,247,541</td>
</tr>
<tr>
<td><strong>Total Investments, At Fair Value</strong></td>
<td></td>
<td>$4,813,301,959</td>
</tr>
<tr>
<td><strong>Less Pending Transactions</strong></td>
<td></td>
<td>(149,441,254)</td>
</tr>
<tr>
<td><strong>Total Net Investments</strong></td>
<td></td>
<td>$4,663,860,705</td>
</tr>
</tbody>
</table>

**2007**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity Strategies</td>
<td>39.4%</td>
<td>$1,944,554,673</td>
</tr>
<tr>
<td>International Equity Strategies</td>
<td>18.8%</td>
<td>927,196,864</td>
</tr>
<tr>
<td>Domestic Fixed Income Strategies</td>
<td>29.2%</td>
<td>1,438,409,071</td>
</tr>
<tr>
<td>International Fixed Income Strategies</td>
<td>3.6%</td>
<td>177,576,094</td>
</tr>
<tr>
<td>Real Estate Strategies</td>
<td>9.0%</td>
<td>442,822,597</td>
</tr>
<tr>
<td>Cash</td>
<td>0.0%</td>
<td>180,956</td>
</tr>
<tr>
<td><strong>Total Investments, At Fair Value</strong></td>
<td></td>
<td>$4,930,740,256</td>
</tr>
<tr>
<td><strong>Less Pending Transactions</strong></td>
<td></td>
<td>(8,868,081)</td>
</tr>
<tr>
<td><strong>Total Net Investments</strong></td>
<td></td>
<td>$4,921,872,175</td>
</tr>
</tbody>
</table>

Actual asset allocation values illustrated above are based upon SDCERS’ investment managers’ specific strategies. Each portfolio, including all securities and cash held by an investment manager, is categorized based upon the strategy that SDCERS hired that manager to execute. SDCERS does not have a target allocation to cash. Investment strategy totals by asset class here will differ from those that appear in the audited financial statements. For GASB reporting purposes, investments in the audited financial statements are stated from a total fund perspective and are then classified by security type: i.e., cash, stocks, bonds and real estate.
San Diego City Employees’ Retirement System
Historical Asset Allocation (Actual)
Ten Year History for Fiscal Years 1999 - 2008 (July 1, 1998 - June 30, 2008)

The historical asset allocation for a fund is the largest factor explaining its performance. The charts below show the fund’s historical actual asset allocation, the fund’s historical target asset allocation, and the historical asset allocation of the average fund in the the Callan Associates Inc.(CAI) Public Fund Sponsor Database.

* Current Quarter Target = 22.8% S&P 500, 18.0% L/B Agg, 13.6% MSCI ACWI ex-US, 9.0% ML 1-5 Govt/Corp, 8.3% NCREIF Total Index, 7.6% Russell 2000, 7.6% S&P Mid Cap 400, 4.0% Citi Non-US Gvt Bd Idx, 3.4% EMI World ex US Idx, 3.0% ML All Conv and 2.8% Dow Jones Wilshire REIT.
San Diego City Employees’ Retirement System

Historical Risk vs. Return Analysis

Since Inception of Diversified Investment Program
March 30, 1989 through June 30, 2008 (19.25 years)

This chart shows the annualized risk-adjusted return of the fund since March 1989, when the Board implemented a multiple active manager structure as part of the asset allocation strategy.
San Diego City Employees’ Retirement System  
Schedule of Largest Equity Holdings  
At Years Ended June 30, 2008 and 2007

### 2008

<table>
<thead>
<tr>
<th>Rank</th>
<th>Shares</th>
<th>Equity Securities</th>
<th>CUSIP</th>
<th>Market Value</th>
<th>Percentage of Total Net Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>290,037</td>
<td>Schlumberger Ltd</td>
<td>806857108</td>
<td>$31,158,675</td>
<td>0.72%</td>
</tr>
<tr>
<td>2</td>
<td>51,365</td>
<td>Google Inc.</td>
<td>382599508</td>
<td>27,039,563</td>
<td>0.63%</td>
</tr>
<tr>
<td>3</td>
<td>563,588</td>
<td>Qualcomm Inc.</td>
<td>747525103</td>
<td>25,006,400</td>
<td>0.58%</td>
</tr>
<tr>
<td>4</td>
<td>528,464</td>
<td>Hewlett Packard Co.</td>
<td>428236103</td>
<td>23,363,393</td>
<td>0.54%</td>
</tr>
<tr>
<td>5</td>
<td>353,012</td>
<td>Procter and Gamble Co.</td>
<td>742718109</td>
<td>21,466,660</td>
<td>0.50%</td>
</tr>
<tr>
<td>6</td>
<td>290,955</td>
<td>Amazon.com Inc.</td>
<td>023135106</td>
<td>21,335,730</td>
<td>0.49%</td>
</tr>
<tr>
<td>7</td>
<td>364,290</td>
<td>Wal-Mart Stores, Inc.</td>
<td>931142103</td>
<td>20,473,098</td>
<td>0.47%</td>
</tr>
<tr>
<td>8</td>
<td>364,290</td>
<td>Salesforce.com Inc.</td>
<td>794661302</td>
<td>19,786,700</td>
<td>0.46%</td>
</tr>
<tr>
<td>9</td>
<td>109,875</td>
<td>Apple Inc.</td>
<td>037833100</td>
<td>18,397,470</td>
<td>0.43%</td>
</tr>
<tr>
<td>10</td>
<td>149,370</td>
<td>Research in Motion Ltd.</td>
<td>760975102</td>
<td>17,461,353</td>
<td>0.40%</td>
</tr>
</tbody>
</table>

**Totals** $225,489,042  4.19%

### 2007

<table>
<thead>
<tr>
<th>Rank</th>
<th>Shares</th>
<th>Equity Securities</th>
<th>CUSIP</th>
<th>Market Value</th>
<th>Percentage of Total Net Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>508,745</td>
<td>Schlumberger Ltd</td>
<td>806857108</td>
<td>$43,212,800</td>
<td>0.98%</td>
</tr>
<tr>
<td>2</td>
<td>787,692</td>
<td>Qualcomm Inc.</td>
<td>747525103</td>
<td>34,177,956</td>
<td>0.78%</td>
</tr>
<tr>
<td>3</td>
<td>455,955</td>
<td>Amazon.com Inc.</td>
<td>023135106</td>
<td>31,191,882</td>
<td>0.71%</td>
</tr>
<tr>
<td>4</td>
<td>59,165</td>
<td>Google Inc.</td>
<td>382599508</td>
<td>30,965,778</td>
<td>0.70%</td>
</tr>
<tr>
<td>5</td>
<td>682,666</td>
<td>General Electric Co.</td>
<td>369604103</td>
<td>26,132,454</td>
<td>0.59%</td>
</tr>
<tr>
<td>6</td>
<td>872,548</td>
<td>Progressive Corp. Ohio</td>
<td>743315103</td>
<td>20,880,074</td>
<td>0.47%</td>
</tr>
<tr>
<td>7</td>
<td>476,200</td>
<td>Salesforce.com Inc.</td>
<td>794661302</td>
<td>20,409,932</td>
<td>0.46%</td>
</tr>
<tr>
<td>8</td>
<td>719,900</td>
<td>Comcast Corp.</td>
<td>200301101</td>
<td>20,243,588</td>
<td>0.46%</td>
</tr>
<tr>
<td>9</td>
<td>448,921</td>
<td>Hewlett Packard Co.</td>
<td>428236103</td>
<td>20,030,855</td>
<td>0.45%</td>
</tr>
<tr>
<td>10</td>
<td>609,384</td>
<td>eBay Inc.</td>
<td>278642103</td>
<td>19,609,977</td>
<td>0.45%</td>
</tr>
</tbody>
</table>

**Totals** $266,855,296  5.41%

A complete list of portfolio holdings is available upon request.
### 2008

<table>
<thead>
<tr>
<th>Rank</th>
<th>Par</th>
<th>Fixed Income Securities</th>
<th>CUSIP</th>
<th>Fair Value</th>
<th>Percentage of Total Net Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>54,395,000</td>
<td>FNMA TBA Jul 30 Single Family 5.5% 1 Dec 2099</td>
<td>01F052672</td>
<td>$53,596,073</td>
<td>1.24%</td>
</tr>
<tr>
<td>2</td>
<td>35,525,000</td>
<td>FNMA TBA Jul 30 Single Family 5.0% 1 Dec 2099</td>
<td>01F050676</td>
<td>34,040,165</td>
<td>0.79%</td>
</tr>
<tr>
<td>3</td>
<td>23,683,000</td>
<td>US Treasury N/B 2.5% 31 Mar 2013</td>
<td>912828HV5</td>
<td>22,851,319</td>
<td>0.53%</td>
</tr>
<tr>
<td>4</td>
<td>18,810,000</td>
<td>United States Treasury Notes 5.125% 15 May 2016</td>
<td>912828FF2</td>
<td>20,518,330</td>
<td>0.47%</td>
</tr>
<tr>
<td>5</td>
<td>12,057,000</td>
<td>Netherlands (Kingdom of) 5.0% 15 Jul 2012</td>
<td>730959I6</td>
<td>19,125,582</td>
<td>0.44%</td>
</tr>
<tr>
<td>6</td>
<td>15,015,000</td>
<td>FNMA TBA Jul 30 Single Family 6.0% 1 Dec 2099</td>
<td>01F060675</td>
<td>15,145,209</td>
<td>0.35%</td>
</tr>
<tr>
<td>7</td>
<td>14,644,310</td>
<td>FNMA Pool 889579 6.0% 1 May 2038</td>
<td>912810FB9</td>
<td>14,913,106</td>
<td>0.35%</td>
</tr>
<tr>
<td>8</td>
<td>9,700,000</td>
<td>Dutch Govt 3.0% 15 Jan 2010</td>
<td>912828GD0</td>
<td>14,891,594</td>
<td>0.34%</td>
</tr>
<tr>
<td>9</td>
<td>12,210,174</td>
<td>FNMA Pool 906270 6.0% 1 Jan 2037</td>
<td>912828GF1</td>
<td>12,352,308</td>
<td>0.29%</td>
</tr>
<tr>
<td>10</td>
<td>10,158,000</td>
<td>US Treasury Bonds 6.125% 15 Nov 2027</td>
<td>912828GD0</td>
<td>12,151,508</td>
<td>0.28%</td>
</tr>
<tr>
<td></td>
<td><strong>Totals</strong></td>
<td></td>
<td></td>
<td><strong>$219,585,194</strong></td>
<td><strong>5.08%</strong></td>
</tr>
</tbody>
</table>

### 2007

<table>
<thead>
<tr>
<th>Rank</th>
<th>Par</th>
<th>Fixed Income Securities</th>
<th>CUSIP</th>
<th>Fair Value</th>
<th>Percentage of Total Net Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>35,741,000</td>
<td>United States Treasury Notes 4.5% 31 Mar 2012</td>
<td>912828GM6</td>
<td>$35,084,817</td>
<td>0.80%</td>
</tr>
<tr>
<td>2</td>
<td>20,150,000</td>
<td>United States Treasury Notes 4.875% 15 Feb 2012</td>
<td>9128277I0</td>
<td>20,126,386</td>
<td>0.46%</td>
</tr>
<tr>
<td>3</td>
<td>17,345,000</td>
<td>United States Treasury Bonds 6.125% 15 Nov 2027</td>
<td>912810FB9</td>
<td>19,339,675</td>
<td>0.44%</td>
</tr>
<tr>
<td>4</td>
<td>18,750,913</td>
<td>FNMA Pool 745336 5% 1 Mar 2036</td>
<td>912828GD0</td>
<td>17,608,277</td>
<td>0.40%</td>
</tr>
<tr>
<td>5</td>
<td>12,057,000</td>
<td>Netherlands 5% 15 Jul 2012</td>
<td>730959I6</td>
<td>16,591,343</td>
<td>0.38%</td>
</tr>
<tr>
<td>6</td>
<td>15,519,359</td>
<td>FNMA Pool 901668 6% 1 Oct 2036</td>
<td>912828GF1</td>
<td>15,359,317</td>
<td>0.35%</td>
</tr>
<tr>
<td>7</td>
<td>15,177,000</td>
<td>United States Treasury Notes 4.875% 30 Apr 2011</td>
<td>912828GD0</td>
<td>15,153,286</td>
<td>0.34%</td>
</tr>
<tr>
<td>8</td>
<td>14,000,000</td>
<td>FNMA TBA Jul 30 Single Family 5% 1 Dec 2099</td>
<td>01F050676</td>
<td>13,109,687</td>
<td>0.30%</td>
</tr>
<tr>
<td>9</td>
<td>9,700,000</td>
<td>Netherlands 3% 15 Jan 2010</td>
<td>912828GD0</td>
<td>12,631,344</td>
<td>0.29%</td>
</tr>
<tr>
<td>10</td>
<td>12,140,000</td>
<td>United States Treasury Notes 4.75% 31 Jan 2012</td>
<td>912828GD0</td>
<td>12,049,898</td>
<td>0.27%</td>
</tr>
<tr>
<td></td>
<td><strong>Totals</strong></td>
<td></td>
<td></td>
<td><strong>$177,054,030</strong></td>
<td><strong>4.02%</strong></td>
</tr>
</tbody>
</table>

A complete list of portfolio holdings is available upon request.
### San Diego City Employees’ Retirement System
### Schedules of Commissions
### For the Years Ended June 30

#### 2008

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brokerage Firm</th>
<th>Number of Shares</th>
<th>Total Commissions</th>
<th>Commission Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UBS AG</td>
<td>31,907,135</td>
<td>$861,449</td>
<td>$0.027</td>
</tr>
<tr>
<td>2</td>
<td>Merrill Lynch &amp; Co., Inc.</td>
<td>20,964,226</td>
<td>599,647</td>
<td>0.029</td>
</tr>
<tr>
<td>3</td>
<td>Investment Technology Group, Inc.</td>
<td>21,847,962</td>
<td>365,964</td>
<td>0.017</td>
</tr>
<tr>
<td>4</td>
<td>Citigroup Global Markets, Inc.</td>
<td>11,403,810</td>
<td>324,821</td>
<td>0.029</td>
</tr>
<tr>
<td>5</td>
<td>Instinet</td>
<td>10,045,073</td>
<td>306,706</td>
<td>0.031</td>
</tr>
<tr>
<td>6</td>
<td>Bear Stearns &amp; Co., Inc.</td>
<td>10,776,647</td>
<td>273,046</td>
<td>0.025</td>
</tr>
<tr>
<td>7</td>
<td>Goldman Sachs &amp; Co.</td>
<td>10,756,470</td>
<td>247,672</td>
<td>0.023</td>
</tr>
<tr>
<td>8</td>
<td>Credit Suisse First Boston Corp.</td>
<td>8,356,688</td>
<td>235,570</td>
<td>0.028</td>
</tr>
<tr>
<td>9</td>
<td>Morgan Stanley &amp; Co.</td>
<td>73,410,720</td>
<td>234,010</td>
<td>0.003</td>
</tr>
<tr>
<td>10</td>
<td>Pershing LLC</td>
<td>8,793,523</td>
<td>228,443</td>
<td>0.026</td>
</tr>
<tr>
<td>11</td>
<td>Cantor Fitzgerald &amp; Co.</td>
<td>6,535,789</td>
<td>226,239</td>
<td>0.035</td>
</tr>
<tr>
<td>12</td>
<td>Lehman Brothers, Inc.</td>
<td>9,532,331</td>
<td>191,055</td>
<td>0.020</td>
</tr>
<tr>
<td>13</td>
<td>Jefferies &amp; Company, Inc.</td>
<td>7,730,445</td>
<td>187,587</td>
<td>0.024</td>
</tr>
<tr>
<td>14</td>
<td>JPMorgan Securities, Inc.</td>
<td>7,317,334</td>
<td>184,427</td>
<td>0.025</td>
</tr>
<tr>
<td>15</td>
<td>BNY Clearing Services, LLC</td>
<td>7,192,745</td>
<td>125,653</td>
<td>0.018</td>
</tr>
<tr>
<td>16</td>
<td>LiquidNet, Inc.</td>
<td>3,362,553</td>
<td>119,614</td>
<td>0.036</td>
</tr>
<tr>
<td>17</td>
<td>State Street Brokerage Services</td>
<td>17,550,478</td>
<td>103,132</td>
<td>0.006</td>
</tr>
<tr>
<td>18</td>
<td>ITG, Inc.</td>
<td>8,702,998</td>
<td>102,423</td>
<td>0.012</td>
</tr>
<tr>
<td>19</td>
<td>Deutsche Bank Securities, Inc.</td>
<td>4,831,931</td>
<td>101,659</td>
<td>0.021</td>
</tr>
<tr>
<td>20</td>
<td>National Financial Services Corp.</td>
<td>2,970,234</td>
<td>92,524</td>
<td>0.031</td>
</tr>
<tr>
<td>21</td>
<td>RBC Capital Markets</td>
<td>1,736,801</td>
<td>68,954</td>
<td>0.040</td>
</tr>
<tr>
<td>22</td>
<td>Macquarie Securities Limited</td>
<td>7,053,545</td>
<td>64,821</td>
<td>0.009</td>
</tr>
<tr>
<td>23</td>
<td>Nomura Securities International, Inc.</td>
<td>11,287,655</td>
<td>63,835</td>
<td>0.006</td>
</tr>
<tr>
<td>24</td>
<td>Bank of America Securities LLC</td>
<td>2,499,466</td>
<td>63,257</td>
<td>0.025</td>
</tr>
<tr>
<td>25</td>
<td>Intercapital Investors, Inc.</td>
<td>2,097,127</td>
<td>62,700</td>
<td>0.030</td>
</tr>
<tr>
<td></td>
<td>All Other Brokers</td>
<td>80,346,433</td>
<td>1,353,286</td>
<td>0.017</td>
</tr>
<tr>
<td></td>
<td><strong>Totals</strong></td>
<td><strong>389,010,199</strong></td>
<td><strong>$6,788,494</strong></td>
<td><strong>$0.018</strong></td>
</tr>
</tbody>
</table>

Year-Over-Year Changes: 3.23% increase in total shares traded; 4.50% increase in total commissions paid; 5.88% change in commissions per share paid.
### San Diego City Employees’ Retirement System

#### Schedules of Commissions (continued)

For the Years Ended June 30

#### 2007

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brokerage Firm</th>
<th>Number of Shares</th>
<th>Total Commissions</th>
<th>Commission Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UBS AG</td>
<td>47,322,947</td>
<td>$578,964</td>
<td>$0.012</td>
</tr>
<tr>
<td>2</td>
<td>Citigroup Global Markets, Inc.</td>
<td>22,810,962</td>
<td>539,254</td>
<td>0.024</td>
</tr>
<tr>
<td>3</td>
<td>Investment Technology Group, Inc.</td>
<td>29,650,532</td>
<td>490,422</td>
<td>0.017</td>
</tr>
<tr>
<td>4</td>
<td>Merrill Lynch &amp; Co., Inc.</td>
<td>24,471,311</td>
<td>466,875</td>
<td>0.019</td>
</tr>
<tr>
<td>5</td>
<td>Goldman Sachs &amp; Co.</td>
<td>18,766,776</td>
<td>376,358</td>
<td>0.020</td>
</tr>
<tr>
<td>6</td>
<td>State Street Brokerage Services</td>
<td>51,620,072</td>
<td>350,608</td>
<td>0.007</td>
</tr>
<tr>
<td>7</td>
<td>Credit Suisse First Boston Corp.</td>
<td>26,700,655</td>
<td>285,204</td>
<td>0.011</td>
</tr>
<tr>
<td>8</td>
<td>Cantor Fitzgerald &amp; Co.</td>
<td>8,132,231</td>
<td>262,674</td>
<td>0.032</td>
</tr>
<tr>
<td>9</td>
<td>Morgan Stanley &amp; Co.</td>
<td>9,787,556</td>
<td>202,259</td>
<td>0.021</td>
</tr>
<tr>
<td>10</td>
<td>Bear Stearns &amp; Co., Inc.</td>
<td>9,424,567</td>
<td>200,464</td>
<td>0.021</td>
</tr>
<tr>
<td>11</td>
<td>Pershing LLC</td>
<td>5,800,097</td>
<td>187,247</td>
<td>0.032</td>
</tr>
<tr>
<td>12</td>
<td>Lehman Brothers, Inc.</td>
<td>6,930,920</td>
<td>186,946</td>
<td>0.027</td>
</tr>
<tr>
<td>13</td>
<td>Deutsche Bank Securities, Inc.</td>
<td>10,151,571</td>
<td>169,264</td>
<td>0.017</td>
</tr>
<tr>
<td>14</td>
<td>BNY Clearing Services, LLC</td>
<td>5,424,032</td>
<td>100,268</td>
<td>0.018</td>
</tr>
<tr>
<td>15</td>
<td>Instinet</td>
<td>9,853,851</td>
<td>87,824</td>
<td>0.009</td>
</tr>
<tr>
<td>16</td>
<td>JP Morgan Securities, Inc.</td>
<td>5,252,614</td>
<td>79,818</td>
<td>0.015</td>
</tr>
<tr>
<td>17</td>
<td>Nomura Securities International, Inc.</td>
<td>5,230,087</td>
<td>74,767</td>
<td>0.014</td>
</tr>
<tr>
<td>18</td>
<td>Jefferies &amp; Company, Inc.</td>
<td>3,517,677</td>
<td>72,771</td>
<td>0.021</td>
</tr>
<tr>
<td>19</td>
<td>National Financial Services Corp.</td>
<td>2,555,334</td>
<td>70,559</td>
<td>0.028</td>
</tr>
<tr>
<td>20</td>
<td>Bank of America Securities LLC</td>
<td>2,427,884</td>
<td>65,905</td>
<td>0.027</td>
</tr>
<tr>
<td>21</td>
<td>Calyon</td>
<td>5,340,617</td>
<td>60,084</td>
<td>0.011</td>
</tr>
<tr>
<td>22</td>
<td>Intercapital Investors, Inc.</td>
<td>1,878,328</td>
<td>57,715</td>
<td>0.031</td>
</tr>
<tr>
<td>23</td>
<td>RBC Capital Markets</td>
<td>1,538,810</td>
<td>56,070</td>
<td>0.036</td>
</tr>
<tr>
<td>24</td>
<td>ABN AMRO Bank NV</td>
<td>5,661,722</td>
<td>53,384</td>
<td>0.009</td>
</tr>
<tr>
<td>25</td>
<td>LiquidNet, Inc.</td>
<td>1,850,401</td>
<td>52,446</td>
<td>0.028</td>
</tr>
</tbody>
</table>

| All Other Brokers               | 54,729,290       | 1,367,797        | 0.025                |

| Totals                          | 376,830,844      | $6,495,946       | $0.017                |
San Diego City Employees’ Retirement System
Growth of Investments, At Fair Value
For Ten Years Ended June 30, 2008

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Fair Value¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$2,295,022,045</td>
</tr>
<tr>
<td>2000</td>
<td>2,629,874,234</td>
</tr>
<tr>
<td>2001</td>
<td>2,582,009,762</td>
</tr>
<tr>
<td>2002</td>
<td>2,507,014,627</td>
</tr>
<tr>
<td>2003</td>
<td>2,656,058,457</td>
</tr>
<tr>
<td>2004</td>
<td>3,240,852,574</td>
</tr>
<tr>
<td>2005</td>
<td>3,636,722,032</td>
</tr>
<tr>
<td>2006</td>
<td>4,202,302,759</td>
</tr>
<tr>
<td>2007</td>
<td>4,922,362,343</td>
</tr>
<tr>
<td>2008</td>
<td>4,663,860,705</td>
</tr>
</tbody>
</table>

¹ Fair value includes investments, cash and cash equivalents on deposit, net of pending transactions (receivable for securities sold and liability for securities purchased).
San Diego City Employees’ Retirement System
Historical Investment Performance
For Ten Fiscal Years Ended June 30, 2008

Annual Total Return measures fund performance in terms of the aggregate change in SDCERS’ market value of investments from the beginning of the measurement period to the end of the measurement period. The Annual Realized Rate of Return measures the gains or losses from actual sales of invested assets plus dividends and income earned during the period. The payment of certain retirement benefits is dependent upon the level of annual realized earnings. For further information, please see the Notes to the Financial Statements.
### Historical Investment Performance (continued)

For Ten Fiscal Years Ended June 30, 2008

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Net Investment Income</th>
<th>Realized Earnings&lt;sup&gt;1&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$180,463,938</td>
<td>$187,942,463</td>
</tr>
<tr>
<td>2000</td>
<td>349,654,651</td>
<td>417,057,074</td>
</tr>
<tr>
<td>2001</td>
<td>(25,126,082)</td>
<td>164,115,281</td>
</tr>
<tr>
<td>2002</td>
<td>(75,934,760)</td>
<td>49,082,291</td>
</tr>
<tr>
<td>2003</td>
<td>122,729,552</td>
<td>(18,644,596)</td>
</tr>
<tr>
<td>2004</td>
<td>536,317,974</td>
<td>260,239,046</td>
</tr>
<tr>
<td>2005</td>
<td>349,310,988</td>
<td>310,061,227</td>
</tr>
<tr>
<td>2006</td>
<td>454,369,168</td>
<td>410,233,183</td>
</tr>
<tr>
<td>2007</td>
<td>668,128,952</td>
<td>464,180,996</td>
</tr>
<tr>
<td>2008</td>
<td>(256,614,969)</td>
<td>294,973,905</td>
</tr>
</tbody>
</table>

<sup>1</sup> Realized Earnings are depicted in this historical schedule as the payment of certain benefits are dependent upon the level of annual realized earnings generated on invested assets. The calculation of realized gains and losses disclosed is independent of the calculation of net appreciation (depreciation) in the financial statements.
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4. Actuarial
February 29, 2008
Members of the Retirement Board
San Diego City Employees’ Retirement Systems
401 West “A” Street, Suite 400
San Diego, California 92101

Dear Members of the Board:

Actuarial valuations for the San Diego City Employees’ Retirement System (SDCERS) are performed annually. The results of the June 30, 2007 actuarial valuation of SDCERS are summarized in this letter.

**Funding Objective**
The funding objective of SDCERS is to establish contribution rates which, over time, will remain level as a percent of payroll. Under this approach the contribution rate is based on the normal cost rate and a 20 year amortization of any Unfunded Actuarial Liability (UAL) for the City, and 14 year amortization of any UAL for both the Unified Port District and the Airport Authority.

**Assumptions**
The actuarial assumptions used in performing the June 30, 2007 valuation were the same as those used in the June 30, 2006 valuation and were based on the review of SDCERS experience for the four year period ending June 30, 2001 and adopted by the Board of Trustees. The assumptions as a whole represent our best estimate for the future experience of SDCERS. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of SDCERS could vary from our results.


**Reliance on Others**
In preparing our report, we relied without audit, on information (some oral and some written) supplied by SDCERS’ staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. The census data provided was reviewed for reasonableness and for consistency with prior year’s data.

**Supporting Schedules**
Using historically provided information from the prior actuary along with 2007 results developed by Cheiron, we prepared all supporting schedules to be found in the Actuarial Section.
Compliance with Code of San Diego §24.0100-0200 and Charter section 149
We have complied with the Code of San Diego §24.0100-0200 in valuing the benefits provided to future and current retirees of SDCERS – City Employees. In addition to §24.0100-0200, we have complied with Charter section 149 in valuing the benefits provided to future and current retirees of the Unified Port of San Diego and the San Diego County Regional Airport Authority.

Certification
I, Gene Kalwarski, am a consulting actuary for Cheiron. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

I certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principals and practices which are consistent with the Code of Professional Conduct and applicable actuarial standards set out by the Actuarial Standards Board and Actuarial Standards of Practice (ASOPs) Nos. 4, 27 and 35. As such, it reflects the actuary’s responsibility under Section 5.8 of ASOP No. 4 “for assessing the implications of the overall results, in terms of short- and long-range benefit security and expected cost progression.”

Sincerely,

Cheiron

Gene Kalwarski, FSA
Consulting Actuary
Actuarial Section

San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results

Overview

The primary purpose of the actuarial valuation and this report is to measure, describe and identify as of the valuation date:

- The financial condition of the System,
- Historical trends in the financial condition of the System,
- The SDCERS contribution rates, and
- Information required by the Governmental Accounting Standards Board (GASB).

On the pages that follow, we present:

1. The actuary's general comments on the valuation,
2. Historical trends showing the System's funding progress and contributions,
3. Detailed information on employer and employee contribution rates,
4. Summary of actuarial assumptions and methods,
5. Schedule of membership data,
6. Schedule of retirees and beneficiaries,
7. Solvency test,
8. Analysis of financial experience,
9. Summary of SDCERS benefit provisions and Deferred Retirement Option Plan (DROP) program.
San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results (continued)

1. General Comments

This valuation represents Cheiron’s third valuation performed for SDCERS. These results are based on the same actuarial assumptions used in the June 30, 2006 valuation, but reflect a number of methodology changes that were approved by the SDCERS Board. These changes include:

- The move from Projected Unit Credit (PUC) to Entry Age Normal (EAN) actuarial funding method.

- The amortization of the June 30, 2007 UAL for the City of San Diego will be over twenty years. The June 30, 2006 UAL for the City of San Diego was amortized over 27 years. The amortization of the June 30, 2007 UAL for the Unified Port District and Airport Authority will be over 14 years. The June 30, 2006 UAL for the Unified Port District and Airport Authority was over 15 years.

- To avoid “negative amortization,” the minimum contribution will be Normal Cost plus full interest on the UAL.

- The change to a new actuarial value of asset smoothing method. For June 30, 2007 and going forward, the actuarial value of assets will be based on the Expected Value of Assets method.

- Liabilities have been removed for all future payments that are projected to be in excess of the maximum benefit level payable from a tax qualified defined benefit plan under Internal Revenue Service Code (IRC) Section 415. In the June 30, 2006 valuation, only liabilities for the then active members in excess of Section 415 limits had been removed.

- Eligibility for the 13th check for active members applies to members hired before February 16, 2007. It was formerly applicable to members hired before July 1, 2005.

The valuation reports for each of the employers in SDCERS show the itemized effects of these changes on the Unfunded Actuarial Liability and the Gain/Loss.

The actuarial funding methodology for the June 30, 2007 actuarial valuation and going forward is the **Entry Age Normal** (EAN) actuarial funding method. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution. The normal cost rate is determined by taking the value, as of entry age into the plan, of each member’s projected future benefits. This value is then divided by the value, also at entry age, of the each member’s expected future salary. The normal cost rate is multiplied by current salary to determine each member’s normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost. The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability. Per the Board’s decision in May 2007, the City of San Diego UAL for FY 2009 is to be amortized over 20 years, with no negative amortization. The Unified Port District and the Airport Authority’s June 30, 2007 UAL is amortized over 14 years.
Actuarial Section

San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results (continued)

2. Historical Trends
Assets and Liabilities

SDCERS - City of San Diego Assets and Liabilities 1997 - 2007

SDCERS - Unified Port District Assets and Liabilities 1997 - 2007

* Liability Method for 2007 has changed from PUC to EAN.

* Liability Method for 2007 has changed from PUC to EAN.
For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph chart.

As demonstrated above, the System had its highest funded percentage at June 30, 2000, before a combination of benefit improvements and the three-year market slide at the start of the decade. The past three years have shown substantial improvements due to the increase in investment returns among other factors. In 2007, the investment returns were offset by the change in funding methods from PUC to EAN.
Actuarial Section

San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results (continued)
Contribution Rates

SDCERS - City of San Diego and Member Contribution Rates 1997 - 2007

SDCERS - Unified Port District and Member Contribution Rates 1997 - 2007
The grey area shows the payroll (right hand scale). The dotted black line shows the contributions made by both the employees (left hand scale). The light-gray line shows the employer contribution rate as a percent of payroll (left hand scale).
### Actuarial Section

#### San Diego City Employees’ Retirement System

**Summary of June 30, 2007 Valuation Results (continued)**

### 3. Contribution Rates

#### SDCERS - City of San Diego

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New funding method:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entry Age Normal UAL (millions)</td>
<td>$1,184.2</td>
<td>$1,210.0</td>
</tr>
<tr>
<td>Entry Age Normal Funding Ratio</td>
<td>78.8%</td>
<td>76.7%</td>
</tr>
<tr>
<td><strong>Prior funding method:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected Unit Credit UAL (millions)</td>
<td>$932.1</td>
<td>$1,000.8</td>
</tr>
<tr>
<td>Projected Unit Credit Funding Ratio</td>
<td>82.6%</td>
<td>79.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year*</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Contribution Rate during year</td>
<td>30.45%</td>
<td>24.95%</td>
</tr>
<tr>
<td>City Contribution Rate start of year</td>
<td>29.30%</td>
<td>24.01%</td>
</tr>
<tr>
<td>Annual Required Contribution (GASB):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>if paid at the beginning of the year</td>
<td>$161.7 million</td>
<td>$137.7 million</td>
</tr>
<tr>
<td>if paid throughout the year</td>
<td>$168.1 million</td>
<td>$143.1 million</td>
</tr>
</tbody>
</table>

#### SDCERS - City of San Diego - Membership Total

<table>
<thead>
<tr>
<th>Item</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actives</td>
<td>8,494</td>
<td>8,887</td>
<td>-4.4%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>2,606</td>
<td>2,359</td>
<td>10.5%</td>
</tr>
<tr>
<td>Disabled</td>
<td>1,245</td>
<td>1,237</td>
<td>0.6%</td>
</tr>
<tr>
<td>Retirees</td>
<td>4,354</td>
<td>4,118</td>
<td>5.7%</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>1,080</td>
<td>1,046</td>
<td>3.3%</td>
</tr>
<tr>
<td>Total City Members</td>
<td>17,779</td>
<td>17,647</td>
<td>0.7%</td>
</tr>
<tr>
<td>Active Member Payroll</td>
<td>$512,440,197</td>
<td>$534,102,800</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Average Pay per Active Member</td>
<td>60,330</td>
<td>60,099</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

#### SDCERS - City of San Diego - Assets & Liabilities

<table>
<thead>
<tr>
<th>EAN — New funding method</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actives</td>
<td>$2,256,487,761</td>
<td>$2,179,917,661</td>
<td>3.5%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>239,571,040</td>
<td>189,840,833</td>
<td>26.2%</td>
</tr>
<tr>
<td>Disabled</td>
<td>383,228,325</td>
<td>371,327,233</td>
<td>3.2%</td>
</tr>
<tr>
<td>Retirees</td>
<td>2,589,431,710</td>
<td>2,335,419,143</td>
<td>10.9%</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>128,934,025</td>
<td>115,456,455</td>
<td>11.7%</td>
</tr>
<tr>
<td>Total Actuarial Liability</td>
<td>$5,557,652,861</td>
<td>$5,191,961,325</td>
<td>7.8%</td>
</tr>
<tr>
<td>Market Value Assets</td>
<td>$4,641,340,923</td>
<td>$3,981,931,694</td>
<td>16.6%</td>
</tr>
<tr>
<td>Actuarial Value Assets</td>
<td>4,413,410,812</td>
<td>3,981,931,694</td>
<td>10.8%</td>
</tr>
<tr>
<td>Unfunded Actuarial Liability</td>
<td>1,184,242,049</td>
<td>1,210,029,631</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Funding Ratio-Actuarial Value</td>
<td>78.8%</td>
<td>76.7%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PUC:Prior funding method</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actives</td>
<td>$2,004,330,450</td>
<td>$1,970,655,791</td>
<td>1.7%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>239,571,040</td>
<td>189,840,833</td>
<td>26.2%</td>
</tr>
<tr>
<td>Disabled</td>
<td>383,228,325</td>
<td>371,327,233</td>
<td>3.2%</td>
</tr>
<tr>
<td>Retirees</td>
<td>2,589,431,710</td>
<td>2,335,419,143</td>
<td>10.9%</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>128,934,025</td>
<td>115,456,455</td>
<td>11.7%</td>
</tr>
<tr>
<td>Total Actuarial Liability</td>
<td>$5,345,495,550</td>
<td>$4,982,699,455</td>
<td>7.3%</td>
</tr>
<tr>
<td>Market Value Assets</td>
<td>$4,641,340,923</td>
<td>$3,981,931,694</td>
<td>16.6%</td>
</tr>
<tr>
<td>Actuarial Value Assets</td>
<td>4,413,410,812</td>
<td>3,981,931,694</td>
<td>10.8%</td>
</tr>
<tr>
<td>Unfunded Actuarial Liability</td>
<td>932,084,738</td>
<td>1,000,767,761</td>
<td>-6.9%</td>
</tr>
<tr>
<td>Funding Ratio-Actuarial Value</td>
<td>82.6%</td>
<td>79.9%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

* FY 2009 reflects Entry Age Normal Funding, 20-year amortization, and no negative amortization. FY 2008 reflects Projected Unit Credit Funding, 27-year amortization, and allows for negative amortization.
## SDCERS - City of San Diego - Contributions

### FAN — New funding method

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Required Contribution (GASB):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• if paid at the beginning of the year</td>
<td>$161.7 million</td>
<td>$141.5 million</td>
<td>14.3%</td>
</tr>
<tr>
<td>• if paid throughout the year</td>
<td>$168.1 million</td>
<td>$147.0 million</td>
<td>14.4%</td>
</tr>
<tr>
<td><strong>Gross Normal Cost %</strong></td>
<td>23.89%</td>
<td>23.39%</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Member Cost %</strong></td>
<td>10.97%</td>
<td>10.54%</td>
<td>0.4%</td>
</tr>
<tr>
<td><strong>Employer Normal Cost %</strong></td>
<td>12.92%</td>
<td>12.85%</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Employer Unfunded Liability Cost %</strong></td>
<td>15.78%</td>
<td>12.75%</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Negative Amortization Adjustment Cost %</strong></td>
<td>1.75%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total Employer Cost %</strong></td>
<td>30.45%</td>
<td>25.60%</td>
<td>4.9%</td>
</tr>
<tr>
<td><strong>Employer Cost % Beginning of Year</strong></td>
<td>29.30%</td>
<td>24.63%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

### PUC — Prior funding method

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Required Contribution (GASB):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• if paid at the beginning of the year</td>
<td>$143.1 million</td>
<td>$137.7 million</td>
<td>3.9%</td>
</tr>
<tr>
<td>• if paid throughout the year</td>
<td>$148.8 million</td>
<td>$143.1 million</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>Gross Normal Cost %</strong></td>
<td>25.56%</td>
<td>24.94%</td>
<td>0.6%</td>
</tr>
<tr>
<td><strong>Member Cost %</strong></td>
<td>10.97%</td>
<td>10.54%</td>
<td>0.4%</td>
</tr>
<tr>
<td><strong>Employer Normal Cost %</strong></td>
<td>14.59%</td>
<td>14.40%</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>Employer Unfunded Liability Cost %</strong></td>
<td>12.42%</td>
<td>10.55%</td>
<td>1.9%</td>
</tr>
<tr>
<td><strong>Total Employer Cost %</strong></td>
<td>27.01%</td>
<td>24.95%</td>
<td>2.1%</td>
</tr>
<tr>
<td><strong>Employer Cost % Beginning of Year</strong></td>
<td>25.99%</td>
<td>24.01%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
### Actuarial Section

San Diego City Employees’ Retirement System  
Summary of June 30, 2007 Valuation Results (continued)

#### SDCERS - Unified Port District

<table>
<thead>
<tr>
<th>Item</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entry Age Normal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actives</td>
<td>$16.0</td>
<td>$22.9</td>
<td>-26.6%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>93.5%</td>
<td>89.9%</td>
<td>+3.6%</td>
</tr>
<tr>
<td><strong>Projected Unit Credit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actives</td>
<td>$9.9</td>
<td>$17.4</td>
<td>-44.9%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>95.9%</td>
<td>92.1%</td>
<td>+3.8%</td>
</tr>
</tbody>
</table>

#### Fiscal Year

<table>
<thead>
<tr>
<th>Fiscal Year*</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Contribution Rate during year</td>
<td>19.09%</td>
<td>19.83%</td>
</tr>
<tr>
<td>City Contribution Rate start of year</td>
<td>18.37%</td>
<td>24.01%</td>
</tr>
<tr>
<td><strong>Annual Required Contribution (GASB):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• if paid at the beginning of the year</td>
<td>$7.3 million</td>
<td>$6.9 million</td>
</tr>
<tr>
<td>• if paid throughout the year</td>
<td>$7.6 million</td>
<td>$7.2 million</td>
</tr>
</tbody>
</table>

### SDCERS - Unified Port District - Membership Total

<table>
<thead>
<tr>
<th>Item</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actives</td>
<td>559</td>
<td>532</td>
<td>+4.7%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>254</td>
<td>261</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Disabled</td>
<td>61</td>
<td>62</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Retirees</td>
<td>233</td>
<td>211</td>
<td>+10.4%</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>55</td>
<td>52</td>
<td>+5.8%</td>
</tr>
<tr>
<td><strong>Total City Members</strong></td>
<td>1,162</td>
<td>1,118</td>
<td>+3.9%</td>
</tr>
<tr>
<td>Active Member Payroll</td>
<td>$37,159,870</td>
<td>$33,927,372</td>
<td>+9.5%</td>
</tr>
<tr>
<td>Average Pay per Active Member</td>
<td>66,476</td>
<td>63,773</td>
<td>+4.2%</td>
</tr>
</tbody>
</table>

### SDCERS - Unified Port District - Assets & Liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entry Age Normal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actives</td>
<td>$121,588,551</td>
<td>$110,949,011</td>
<td>+9.6%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>9,928,803</td>
<td>13,662,803</td>
<td>-27.3%</td>
</tr>
<tr>
<td>Disabled</td>
<td>13,772,668</td>
<td>13,848,390</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Retirees</td>
<td>94,376,832</td>
<td>81,768,654</td>
<td>+15.4%</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>6,871,472</td>
<td>5,924,995</td>
<td>+16.0%</td>
</tr>
<tr>
<td><strong>Total Actuarial Liability</strong></td>
<td>$246,538,326</td>
<td>$226,153,853</td>
<td>+9.0%</td>
</tr>
<tr>
<td>Market Value Assets</td>
<td>$242,403,219</td>
<td>$203,285,828</td>
<td>+19.2%</td>
</tr>
<tr>
<td>Actuarial Value Assets</td>
<td>230,584,904</td>
<td>203,285,828</td>
<td>+13.4%</td>
</tr>
<tr>
<td>Unfunded Actuarial Liability</td>
<td>15,953,422</td>
<td>22,688,025</td>
<td>-30.2%</td>
</tr>
<tr>
<td>Funding Ratio-Actuarial Value</td>
<td>93.5%</td>
<td>89.9%</td>
<td>+3.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Projected Unit Credit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actives</td>
<td>$115,550,611</td>
<td>$105,432,437</td>
<td>+9.6%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>9,928,803</td>
<td>13,662,803</td>
<td>-27.3%</td>
</tr>
<tr>
<td>Disabled</td>
<td>13,772,668</td>
<td>13,848,390</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Retirees</td>
<td>94,376,832</td>
<td>81,768,654</td>
<td>+15.4%</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>6,871,472</td>
<td>5,924,995</td>
<td>+16.0%</td>
</tr>
<tr>
<td><strong>Total Actuarial Liability</strong></td>
<td>$240,500,386</td>
<td>$220,637,279</td>
<td>+9.0%</td>
</tr>
<tr>
<td>Market Value Assets</td>
<td>$242,403,219</td>
<td>$203,285,828</td>
<td>+19.2%</td>
</tr>
<tr>
<td>Actuarial Value Assets</td>
<td>230,584,904</td>
<td>203,285,828</td>
<td>+13.4%</td>
</tr>
<tr>
<td>Unfunded Actuarial Liability</td>
<td>9,915,482</td>
<td>17,351,451</td>
<td>-42.9%</td>
</tr>
<tr>
<td>Funding Ratio-Actuarial Value</td>
<td>95.9%</td>
<td>92.1%</td>
<td>+3.8%</td>
</tr>
</tbody>
</table>

* FY 2009 reflects Entry Age Normal Funding, 14-year amortization, and no negative amortization. FY 2008 reflects Projected Unit Credit Funding, 15-year amortization, and allows for negative amortization.
San Diego City Employees’ Retirement System  
Summary of June 30, 2007 Valuation Results (continued)  

**SDCERS - Unified Port District - Contributions**

<table>
<thead>
<tr>
<th>EAN - New funding method</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Normal Cost %</td>
<td>25.99%</td>
<td>25.86%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Member Cost %</td>
<td>10.71%</td>
<td>10.12%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Employer Normal Cost %</td>
<td>15.20%</td>
<td>15.74%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Employer Unfunded Liability Cost %</td>
<td>3.81%</td>
<td>5.67%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Negative Amortization Adjustment Cost %</td>
<td>0.00%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Employer Cost %</td>
<td>19.09%</td>
<td>21.41%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Employer Cost % Beginning of Year</td>
<td>18.37%</td>
<td>20.60%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Annual Required Contribution (GASB):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• if paid at the beginning of the year</td>
<td>$7.3 million</td>
<td>$7.5 million</td>
<td>-2.7%</td>
</tr>
<tr>
<td>• if paid throughout the year</td>
<td>$7.6 million</td>
<td>$7.8 million</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PUC - Prior funding method</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Normal Cost %</td>
<td>25.44%</td>
<td>25.65%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Member Cost %</td>
<td>10.71%</td>
<td>10.12%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Employer Normal Cost %</td>
<td>14.73%</td>
<td>15.53%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Employer Unfunded Liability Cost %</td>
<td>2.37%</td>
<td>4.3%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Total Employer Cost %</td>
<td>17.10%</td>
<td>19.83%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Employer Cost % Beginning of Year</td>
<td>16.45%</td>
<td>19.08%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Annual Required Contribution (GASB):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• if paid at the beginning of the year</td>
<td>$6.5 million</td>
<td>$6.9 million</td>
<td>-5.8%</td>
</tr>
<tr>
<td>• if paid throughout the year</td>
<td>$6.8 million</td>
<td>$7.2 million</td>
<td>-5.6%</td>
</tr>
</tbody>
</table>
### Actuarial Section

**San Diego City Employees’ Retirement System**  
Summary of June 30, 2007 Valuation Results (continued)

#### SDCERS - Airport Authority

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>New funding method:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entry Age Normal UAL (millions)</td>
<td>$4.2</td>
<td>$2.0</td>
</tr>
<tr>
<td>Entry Age Normal Funding Ratio</td>
<td>109.0%</td>
<td>105.1%</td>
</tr>
<tr>
<td>Prior funding method:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected Unit Credit UAL (millions)</td>
<td>$-6.8</td>
<td>$-4.3</td>
</tr>
<tr>
<td>Projected Unit Credit Funding Ratio</td>
<td>115.4%</td>
<td>111.7%</td>
</tr>
</tbody>
</table>

#### SDCERS - Airport Authority - Membership Total

<table>
<thead>
<tr>
<th>Item</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actives</td>
<td>324</td>
<td>295</td>
<td>9.8%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>52</td>
<td>45</td>
<td>15.6%</td>
</tr>
<tr>
<td>Disabled</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Retirees</td>
<td>11</td>
<td>6</td>
<td>83.3%</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>1</td>
<td>1</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total City Members</td>
<td>388</td>
<td>347</td>
<td>11.8%</td>
</tr>
<tr>
<td>Active Member Payroll</td>
<td>$21,956,656</td>
<td>$19,115,804</td>
<td>14.9%</td>
</tr>
<tr>
<td>Average Pay per Active Member</td>
<td>67,767</td>
<td>64,799</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

#### SDCERS - Airport Authority - Assets & Liabilities

<table>
<thead>
<tr>
<th>EAN – New funding method</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actives</td>
<td>$40,418,489</td>
<td>$34,399,808</td>
<td>17.5%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>1,930,181</td>
<td>2,032,231</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Disabled</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Retirees</td>
<td>3,981,919</td>
<td>2,479,827</td>
<td>60.6%</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>305,966</td>
<td>303,635</td>
<td>0.8%</td>
</tr>
<tr>
<td>Total Actuarial Liability</td>
<td>$46,636,555</td>
<td>$39,215,501</td>
<td>18.9%</td>
</tr>
<tr>
<td>Market Value Assets</td>
<td>$53,305,476</td>
<td>$41,222,279</td>
<td>29.3%</td>
</tr>
<tr>
<td>Actuarial Value Assets</td>
<td>50,812,142</td>
<td>41,222,279</td>
<td>23.3%</td>
</tr>
<tr>
<td>Unfunded Actuarial Liability</td>
<td>(4,175,587)</td>
<td>(2,006,778)</td>
<td>108.1%</td>
</tr>
<tr>
<td>Funding Ratio-Actuarial Value</td>
<td>109.0%</td>
<td>105.1%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PUC-Prior funding method</th>
<th>June 30, 2007</th>
<th>June 30, 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actives</td>
<td>$37,810,326</td>
<td>$32,089,522</td>
<td>17.8%</td>
</tr>
<tr>
<td>Terminated Vested</td>
<td>1,930,181</td>
<td>2,032,231</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Disabled</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Retirees</td>
<td>3,981,919</td>
<td>2,479,827</td>
<td>60.6%</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>305,966</td>
<td>303,635</td>
<td>0.8%</td>
</tr>
<tr>
<td>Total Actuarial Liability</td>
<td>$44,028,392</td>
<td>$36,905,216</td>
<td>19.3%</td>
</tr>
<tr>
<td>Market Value Assets</td>
<td>$53,305,476</td>
<td>$41,222,279</td>
<td>29.3%</td>
</tr>
<tr>
<td>Actuarial Value Assets</td>
<td>50,812,142</td>
<td>41,222,279</td>
<td>23.3%</td>
</tr>
<tr>
<td>Unfunded Actuarial Liability</td>
<td>(4,783,750)</td>
<td>(4,317,063)</td>
<td>57.1%</td>
</tr>
<tr>
<td>Funding Ratio-Actuarial Value</td>
<td>115.4%</td>
<td>111.7%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

* FY 2009 reflects Entry Age Normal Funding, 14-year amortization, and no negative amortization. FY 2008 reflects Projected Unit Credit Funding, 15-year amortization, and allows for negative amortization.
### San Diego City Employees' Retirement System

#### Summary of June 30, 2007 Valuation Results (continued)

#### SDCERS - Airport Authority - Contributions

<table>
<thead>
<tr>
<th></th>
<th>EAN — New funding method</th>
<th></th>
<th></th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2007</td>
<td>June 30, 2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Normal Cost %</td>
<td>24.86%</td>
<td>24.45%</td>
<td>0.4%</td>
<td></td>
</tr>
<tr>
<td>Member Cost %</td>
<td>10.02%</td>
<td>9.44%</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>Employer Normal Cost %</td>
<td>14.84%</td>
<td>15.01%</td>
<td>-0.2%</td>
<td></td>
</tr>
<tr>
<td>Employer Unfunded Liability Cost %</td>
<td>-1.69%</td>
<td>-0.88%</td>
<td>-0.8%</td>
<td></td>
</tr>
<tr>
<td>Negative Amortization Adjustment Cost %</td>
<td>0.00%</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Total Employer Cost %</td>
<td>13.15%</td>
<td>14.13%</td>
<td>-1.0%</td>
<td></td>
</tr>
</tbody>
</table>

Annual Required Contribution (GASB):

- If paid at the beginning of the year: $3.0 million, $2.8 million (7.1%)
- If paid throughout the year: $3.1 million, $2.9 million (6.9%)

<table>
<thead>
<tr>
<th></th>
<th>PUC — Prior funding method</th>
<th></th>
<th></th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2007</td>
<td>June 30, 2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Normal Cost %</td>
<td>23.17%</td>
<td>22.55%</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>Member Cost %</td>
<td>10.02%</td>
<td>9.44%</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>Employer Normal Cost %</td>
<td>13.15%</td>
<td>13.11%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Employer Unfunded Liability Cost %</td>
<td>-2.74%</td>
<td>-1.90%</td>
<td>-0.8%</td>
<td></td>
</tr>
<tr>
<td>Total Employer Cost %</td>
<td>10.41%</td>
<td>11.21%</td>
<td>-0.8%</td>
<td></td>
</tr>
</tbody>
</table>

Annual Required Contribution (GASB):

- If paid at the beginning of the year: $2.3 million, $2.2 million (4.5%)
- If paid throughout the year: $2.4 million, $2.3 million (4.3%)
4. Summary of Assumptions and Methods

A. Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member’s date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The unfunded actuarial liability is amortized by annual payments as follows:

City of San Diego

The current Unfunded Actuarial Liability is amortized over 20 years as of the 6/30/2007 valuation. In addition to the 20 year amortization, the UAL payment shall not produce negative amortization on the UAL. The payments are a level percentage of pay, assuming a payroll increase of 4.25%.

Unified Port of San Diego and San Diego County Regional Airport Authority

The current Unfunded Actuarial Liability is amortized over 14 years as of the 6/30/2007 valuation. In addition to the 14 year amortization, the UAL payment shall not produce negative amortization on the UAL. The payments are a level percentage of pay, assuming a payroll increase of 4.25%.

The System’s contributions are calculated using the same basic actuarial method (EAN).

B. Actuarial Value of Assets

For the purposes of determining the City of San Diego’s contribution to SDCERS, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets is a weighted average giving 25% weight to the current market value and 75% weight to the prior year’s actuarial value increased by expected interest and contributions and decreased by benefit payments and expenses. This is mathematically equivalent to recognizing 100% of the actuarially assumed interest rate, plus contribution, less payment each year and 25% of the portion of each year’s returns that have not already been reflected in asset values. This method was initiated in the June 30, 2007 valuation. The actuarial value of assets for the June 30, 2006 valuation is determined to be the market value as of June 30, 2006.
San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results (continued)

C. Changes Since Last Valuation

• Funding for the plan is based on the Entry Age Normal actuarial funding method rather than the Projected Unit Credit actuarial funding method.

• The June 30, 2007 UAL will be amortized over 20 years for the City of San Diego and 14 years for the Unified Port District and Airport Authority and:
  - Future Gains/(Losses) amortized over 15 years.
  - Future Benefit Changes for the City of San Diego are amortized over 5 years. Future Benefit Changes for the Unified Port District and Airport Authority are amortized over shorter of 20 years or period over which benefit changes are paid
  - Future Changes in methods or assumptions amortized over 30 years.

• There is no negative amortization on the unfunded liability payments.

• The change to a new actuarial value of asset smoothing method. For June 30, 2007 and going forward, the actuarial value of assets will be based on the Expected Value of Assets method.

• All future benefits payable for inactives from the SDCERS Trust Fund are capped at the maximum benefit level allowable under Internal Revenue Service Code (IRC) Section 415. (Active participants benefits were capped under Section 415 as of the June 30, 2006 valuation.)

• Eligibility for the 13th check for active members applies to members hired before February 16, 2007. It was formerly members hired before July 1, 2005.
Actuarial Section

San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results (continued)

Long Term Assumptions Used to Determine System Costs and Liabilities

D. Demographic Assumptions

Mortality

All members follow the Uninsured Pensioner 1994 (UP1994) set back 5 years (male and female). Set back is a period of years that a standard published table (i.e., mortality) is referenced backwards in age. It is the opposite for set forward. SDCERS uses set backs and set forwards to compensate for mortality experiences in its work force.

<table>
<thead>
<tr>
<th>Age</th>
<th>General Male</th>
<th>General Female</th>
<th>Safety Male</th>
<th>Safety Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>0.04%</td>
<td>0.02%</td>
<td>0.04%</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>0.05</td>
<td>0.03</td>
<td>0.05</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>0.07</td>
<td>0.03</td>
<td>0.07</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>0.09</td>
<td>0.04</td>
<td>0.09</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>0.09</td>
<td>0.05</td>
<td>0.09</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>0.12</td>
<td>0.08</td>
<td>0.12</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>0.17</td>
<td>0.10</td>
<td>0.17</td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>0.28</td>
<td>0.15</td>
<td>0.28</td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>0.48</td>
<td>0.25</td>
<td>0.48</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>0.86</td>
<td>0.48</td>
<td>0.86</td>
<td></td>
</tr>
<tr>
<td>70</td>
<td>1.56</td>
<td>0.93</td>
<td>1.56</td>
<td></td>
</tr>
</tbody>
</table>

All active member deaths are assumed to be duty-related for Safety members and not duty-related for other members.

All retired healthy members use the Uninsured Pensioner 1994 (UP1994) table set back 2 years (male and female).

<table>
<thead>
<tr>
<th>Age</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>0.10%</td>
<td>0.06%</td>
</tr>
<tr>
<td>45</td>
<td>0.15</td>
<td>0.09</td>
</tr>
<tr>
<td>50</td>
<td>0.23</td>
<td>0.13</td>
</tr>
<tr>
<td>55</td>
<td>0.39</td>
<td>0.21</td>
</tr>
<tr>
<td>60</td>
<td>0.68</td>
<td>0.36</td>
</tr>
<tr>
<td>65</td>
<td>1.23</td>
<td>0.72</td>
</tr>
<tr>
<td>70</td>
<td>2.14</td>
<td>1.26</td>
</tr>
<tr>
<td>75</td>
<td>3.35</td>
<td>1.97</td>
</tr>
<tr>
<td>80</td>
<td>5.40</td>
<td>3.41</td>
</tr>
<tr>
<td>85</td>
<td>8.87</td>
<td>5.90</td>
</tr>
<tr>
<td>90</td>
<td>13.65</td>
<td>10.09</td>
</tr>
</tbody>
</table>
San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results (continued)

Disabled members use the Uninsured Pensioner 1994 (UP1994) male only table set forward five years.

Rates of Mortality for Disabled Lives at Selected Ages

<table>
<thead>
<tr>
<th>Age</th>
<th>General</th>
<th>Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>0.07%</td>
<td>0.06%</td>
</tr>
<tr>
<td>25</td>
<td>0.09</td>
<td>0.08</td>
</tr>
<tr>
<td>30</td>
<td>0.09</td>
<td>0.09</td>
</tr>
<tr>
<td>35</td>
<td>0.12</td>
<td>0.10</td>
</tr>
<tr>
<td>40</td>
<td>0.17</td>
<td>0.13</td>
</tr>
<tr>
<td>45</td>
<td>0.28</td>
<td>0.20</td>
</tr>
<tr>
<td>50</td>
<td>0.48</td>
<td>0.35</td>
</tr>
<tr>
<td>55</td>
<td>0.86</td>
<td>0.60</td>
</tr>
<tr>
<td>60</td>
<td>1.56</td>
<td>1.09</td>
</tr>
<tr>
<td>65</td>
<td>2.55</td>
<td>1.94</td>
</tr>
<tr>
<td>70</td>
<td>4.00</td>
<td>3.06</td>
</tr>
</tbody>
</table>

Termination of Employment (Prior to Normal Retirement Eligibility)

Rates of Termination at Selected Ages and Service

<table>
<thead>
<tr>
<th>Service</th>
<th>Age</th>
<th>General</th>
<th>Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>All</td>
<td>5.63%</td>
<td>2.20%</td>
</tr>
<tr>
<td>1</td>
<td>All</td>
<td>5.53</td>
<td>2.20</td>
</tr>
<tr>
<td>2</td>
<td>All</td>
<td>4.33</td>
<td>2.15</td>
</tr>
<tr>
<td>3</td>
<td>All</td>
<td>4.33</td>
<td>2.05</td>
</tr>
<tr>
<td>4</td>
<td>All</td>
<td>4.24</td>
<td>2.00</td>
</tr>
<tr>
<td>5 &amp; Over</td>
<td>20</td>
<td>4.62</td>
<td>2.12</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>4.62</td>
<td>2.12</td>
</tr>
<tr>
<td></td>
<td>30</td>
<td>3.13</td>
<td>1.48</td>
</tr>
<tr>
<td></td>
<td>35</td>
<td>2.32</td>
<td>0.93</td>
</tr>
<tr>
<td></td>
<td>40</td>
<td>1.60</td>
<td>0.39</td>
</tr>
<tr>
<td></td>
<td>45</td>
<td>1.34</td>
<td>0.20</td>
</tr>
<tr>
<td></td>
<td>50</td>
<td>1.03</td>
<td>0.07</td>
</tr>
<tr>
<td></td>
<td>55</td>
<td>0.77</td>
<td>0.03</td>
</tr>
<tr>
<td></td>
<td>60</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

20% of terminating employees, with 5-plus years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.75% pay increases per year.
Actuarial Section

San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results (continued)

Disability

Rates of Disability at Selected Ages

<table>
<thead>
<tr>
<th>Age</th>
<th>General</th>
<th>Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>0.06%</td>
<td>0.54%</td>
</tr>
<tr>
<td>25</td>
<td>0.08</td>
<td>0.60</td>
</tr>
<tr>
<td>30</td>
<td>0.10</td>
<td>0.65</td>
</tr>
<tr>
<td>35</td>
<td>0.16</td>
<td>0.71</td>
</tr>
<tr>
<td>40</td>
<td>0.22</td>
<td>0.90</td>
</tr>
<tr>
<td>45</td>
<td>0.33</td>
<td>1.15</td>
</tr>
<tr>
<td>50</td>
<td>0.50</td>
<td>1.25</td>
</tr>
<tr>
<td>55</td>
<td>0.75</td>
<td>1.50</td>
</tr>
<tr>
<td>60</td>
<td>0.97</td>
<td>-</td>
</tr>
</tbody>
</table>

70% of the disabilities are assumed to be industrial disability retirements. Non-industrial disability retirement is subject to a service requirement.

Family Composition

80% of men and 50% of women were assumed married at retirement. Female spouse is assumed to be 4 years younger than the male spouse.
### Rates of Retirement at Selected Ages

<table>
<thead>
<tr>
<th>Age</th>
<th>General</th>
<th>Elected Officials</th>
<th>Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>-</td>
<td>-</td>
<td>10%</td>
</tr>
<tr>
<td>51</td>
<td>-</td>
<td>-</td>
<td>10%</td>
</tr>
<tr>
<td>52</td>
<td>-</td>
<td>-</td>
<td>10%</td>
</tr>
<tr>
<td>53</td>
<td>-</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>54</td>
<td>-</td>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>55</td>
<td>20%</td>
<td>5</td>
<td>40%</td>
</tr>
<tr>
<td>56</td>
<td>10%</td>
<td>3</td>
<td>40%</td>
</tr>
<tr>
<td>57</td>
<td>10%</td>
<td>4</td>
<td>40%</td>
</tr>
<tr>
<td>58</td>
<td>10%</td>
<td>5</td>
<td>50%</td>
</tr>
<tr>
<td>59</td>
<td>10%</td>
<td>6</td>
<td>50%</td>
</tr>
<tr>
<td>60</td>
<td>20%</td>
<td>60</td>
<td>85%</td>
</tr>
<tr>
<td>61</td>
<td>25%</td>
<td>25</td>
<td>90%</td>
</tr>
<tr>
<td>62</td>
<td>50%</td>
<td>37</td>
<td>100%</td>
</tr>
<tr>
<td>63</td>
<td>40%</td>
<td>34</td>
<td>100%</td>
</tr>
<tr>
<td>64</td>
<td>40%</td>
<td>34</td>
<td>100%</td>
</tr>
<tr>
<td>65</td>
<td>40%</td>
<td>34</td>
<td>100%</td>
</tr>
<tr>
<td>66</td>
<td>40%</td>
<td>69</td>
<td>100%</td>
</tr>
<tr>
<td>67</td>
<td>40%</td>
<td>74</td>
<td>100%</td>
</tr>
<tr>
<td>68</td>
<td>40%</td>
<td>80</td>
<td>100%</td>
</tr>
<tr>
<td>69</td>
<td>40%</td>
<td>90</td>
<td>100%</td>
</tr>
<tr>
<td>70</td>
<td>100%</td>
<td>100</td>
<td>100%</td>
</tr>
</tbody>
</table>

In addition, if a Safety member has both attained age 55 and completed at least 30 years of service, 100% retirement is assumed.

For vested deferred members in the City, we assume that retirement will occur provided they have at least 10 years of service (4 years for Elected Officers) on the later of attained age or:

- **General Members**: Earlier of age 62 or age 55 and 20+ years of service
- **Elected Officers**: Earlier at age 55 or age 53 and 8+ years of service
- **Safety Members**: Earlier of age 55 or age 50 and 20+ years of service

For vested deferred members in the Unified Port District and the Airport Authority, we assume that retirement will occur provided they have at least 5 years of service (excluding the 5 year permissible purchased service) on the later of attained age or:

- **General Members**: Earlier of age 62 or age 55 and 20+ years of service
- **Safety Members**: Earlier of age 55 or age 50 and 20+ years of service

If the inactive member is not vested, the liability is the member’s contributions with interest.
Actuarial Section

San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results (continued)

E. Economic Assumptions

<table>
<thead>
<tr>
<th>Investment Return:</th>
<th>8.0% compounded per annum, net of expenses.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Credited to</td>
<td>8.0% compounded per annum.</td>
</tr>
<tr>
<td>Member Contributions:</td>
<td>8.0% compounded per annum.</td>
</tr>
<tr>
<td>Rate of Wage Increase:</td>
<td>4.25% compounded per annum.</td>
</tr>
<tr>
<td>Additional Merit Wage Increase:</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years of Service at Valuation Date</th>
<th>General</th>
<th>Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>4.50%</td>
<td>7.50%</td>
</tr>
<tr>
<td>1</td>
<td>3.50%</td>
<td>6.50%</td>
</tr>
<tr>
<td>2</td>
<td>2.50%</td>
<td>5.50%</td>
</tr>
<tr>
<td>3</td>
<td>1.50%</td>
<td>3.00%</td>
</tr>
<tr>
<td>4</td>
<td>0.50%</td>
<td>1.50%</td>
</tr>
<tr>
<td>5+</td>
<td>0.50%</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rate of Increase in Cost-of-Living:</th>
<th>2.00% compounded per annum.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.25% compounded per annum for a closed group of 98 special City safety officers.</td>
<td></td>
</tr>
</tbody>
</table>

| Total Payroll Increase (For amortization): | 4.25% compounded per annum. |

| COLA Annuity Benefit: | For active members, there is a 2.5% load on valued benefits for the City and the Unified Port District and 2.0% load for the Airport Authority. This is to anticipate the impact of the annuitized employee COLA contributions at retirement. |

F. Changes Since Last Valuation

There have been no changes since the last valuation to the Demographic or Economic Assumptions.
San Diego City Employees’ Retirement System  
Summary of June 30, 2007 Valuation Results (continued)

5. Schedule of Active Member Valuation Data

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Active Members</th>
<th>Annual Payroll</th>
<th>Average Annual Payroll</th>
<th>% Increases In</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Average Pay</td>
</tr>
<tr>
<td>6/30/2007</td>
<td>8,494</td>
<td>$512,440,197</td>
<td>$60,330</td>
<td>0.38%</td>
</tr>
<tr>
<td>6/30/2006</td>
<td>8,887</td>
<td>$534,102,801</td>
<td>60,099</td>
<td>1.70</td>
</tr>
<tr>
<td>6/30/2005</td>
<td>9,436</td>
<td>$557,630,735</td>
<td>59,096</td>
<td>6.65</td>
</tr>
<tr>
<td>6/30/2004</td>
<td>9,749</td>
<td>$540,180,941</td>
<td>55,409</td>
<td>4.88</td>
</tr>
<tr>
<td>6/30/2003</td>
<td>10,100</td>
<td>$533,595,405</td>
<td>52,831</td>
<td>2.76</td>
</tr>
<tr>
<td>6/30/2002</td>
<td>10,409</td>
<td>$535,156,545</td>
<td>51,413</td>
<td>5.54</td>
</tr>
</tbody>
</table>

SDCERS - Unified Port District

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Active Members</th>
<th>Annual Payroll</th>
<th>Average Annual Payroll</th>
<th>% Increases In</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Average Pay</td>
</tr>
<tr>
<td>6/30/2007</td>
<td>559</td>
<td>$37,159,870</td>
<td>$66,476</td>
<td>4.24%</td>
</tr>
<tr>
<td>6/30/2006</td>
<td>532</td>
<td>$33,927,372</td>
<td>63,773</td>
<td>1.45</td>
</tr>
<tr>
<td>6/30/2005</td>
<td>558</td>
<td>$35,077,367</td>
<td>62,863</td>
<td>3.52</td>
</tr>
<tr>
<td>6/30/2004</td>
<td>575</td>
<td>$34,915,741</td>
<td>60,723</td>
<td>8.24</td>
</tr>
<tr>
<td>6/30/2003</td>
<td>609</td>
<td>$34,163,647</td>
<td>56,098</td>
<td>0.00</td>
</tr>
<tr>
<td>12/31/2002</td>
<td>606</td>
<td>$33,995,335</td>
<td>56,098</td>
<td>5.70</td>
</tr>
<tr>
<td>6/30/2002</td>
<td>736</td>
<td>$39,063,314</td>
<td>53,075</td>
<td>6.95</td>
</tr>
</tbody>
</table>

SDCERS - Airport Authority

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Active Members</th>
<th>Annual Payroll</th>
<th>Average Annual Payroll</th>
<th>% Increases In</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Average Pay</td>
</tr>
<tr>
<td>6/30/2007</td>
<td>324</td>
<td>$21,956,656</td>
<td>$67,767</td>
<td>4.58%</td>
</tr>
<tr>
<td>6/30/2006</td>
<td>295</td>
<td>$19,115,804</td>
<td>64,799</td>
<td>4.51</td>
</tr>
<tr>
<td>6/30/2005</td>
<td>284</td>
<td>$17,608,879</td>
<td>62,003</td>
<td>5.29</td>
</tr>
<tr>
<td>6/30/2004</td>
<td>265</td>
<td>$15,605,857</td>
<td>58,890</td>
<td>5.80</td>
</tr>
<tr>
<td>6/30/2003</td>
<td>208</td>
<td>$11,577,127</td>
<td>55,659</td>
<td>8.54</td>
</tr>
<tr>
<td>12/31/2002</td>
<td>173</td>
<td>$8,871,283</td>
<td>51,279</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Results from June 30, 2004 and prior were calculated by Gabriel, Roeder, Smith & Company, (GRS), SDCERS’ prior actuary. SDCERS is not responsible for this information.
### SDCERS - City of San Diego

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>Added</th>
<th>Removed</th>
<th>Total</th>
<th>% Increase</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>Count</td>
<td>Count</td>
<td>Annual Allowances</td>
<td>Annual Allowances</td>
</tr>
<tr>
<td>6/30/07</td>
<td>486</td>
<td>208</td>
<td>6,679</td>
<td>$19,465,413</td>
<td>$3,634,273</td>
</tr>
<tr>
<td>6/30/06</td>
<td>619</td>
<td>213</td>
<td>6,401</td>
<td>$24,676,720</td>
<td>$3,150,596</td>
</tr>
<tr>
<td>6/30/05</td>
<td>443</td>
<td>171</td>
<td>5,995</td>
<td>$18,168,020</td>
<td>$2,342,920</td>
</tr>
<tr>
<td>6/30/04</td>
<td>434</td>
<td>178</td>
<td>5,723</td>
<td>$16,057,596</td>
<td>$2,634,535</td>
</tr>
<tr>
<td>6/30/03</td>
<td>470</td>
<td>146</td>
<td>5,467</td>
<td>$22,966,080</td>
<td>$2,035,123</td>
</tr>
<tr>
<td>6/30/02</td>
<td>168</td>
<td>37</td>
<td>5,143</td>
<td>$6,924,718</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### SDCERS - Unified Port of San Diego

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>Added</th>
<th>Removed</th>
<th>Total</th>
<th>% Increase</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>Count</td>
<td>Count</td>
<td>Annual Allowances</td>
<td>Annual Allowances</td>
</tr>
<tr>
<td>6/30/07</td>
<td>38</td>
<td>14</td>
<td>349</td>
<td>$1,147,197</td>
<td>$276,143</td>
</tr>
<tr>
<td>6/30/06</td>
<td>29</td>
<td>10</td>
<td>325</td>
<td>$1,131,237</td>
<td>$333,265</td>
</tr>
<tr>
<td>6/30/05</td>
<td>20</td>
<td>4</td>
<td>306</td>
<td>$786,944</td>
<td>$38,109</td>
</tr>
<tr>
<td>6/30/04</td>
<td>26</td>
<td>10</td>
<td>290</td>
<td>$895,159</td>
<td>$135,199</td>
</tr>
<tr>
<td>6/30/03</td>
<td>15</td>
<td>19</td>
<td>274</td>
<td>$520,260</td>
<td>$454,851</td>
</tr>
<tr>
<td>12/31/02</td>
<td>26</td>
<td>7</td>
<td>278</td>
<td>$901,784</td>
<td>$449,156</td>
</tr>
<tr>
<td>6/30/02</td>
<td>18</td>
<td>1</td>
<td>263</td>
<td>$532,224</td>
<td>$16,552</td>
</tr>
</tbody>
</table>

### SDCERS - Airport Authority

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>Added</th>
<th>Removed</th>
<th>Total</th>
<th>% Increase</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>Count</td>
<td>Count</td>
<td>Annual Allowances</td>
<td>Annual Allowances</td>
</tr>
<tr>
<td>6/30/07</td>
<td>5</td>
<td>-</td>
<td>12</td>
<td>$115,187</td>
<td>$277,559</td>
</tr>
<tr>
<td>6/30/06</td>
<td>1</td>
<td>1</td>
<td>8</td>
<td>$21,612</td>
<td>$39,833</td>
</tr>
<tr>
<td>6/30/05</td>
<td>4</td>
<td>-</td>
<td>13</td>
<td>$147,730</td>
<td>$9,833</td>
</tr>
<tr>
<td>6/30/04</td>
<td>2</td>
<td>-</td>
<td>11</td>
<td>$46,165</td>
<td>-</td>
</tr>
<tr>
<td>6/30/03</td>
<td>1</td>
<td>-</td>
<td>5</td>
<td>$25,112</td>
<td>-</td>
</tr>
<tr>
<td>6/30/02</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

---

1 June 30, 2006 and later valuations reflect contingent liabilities, DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

Results from the June 30, 2004 actuarial valuation and prior were calculated by Gabriel, Reeder, Smith & Company (GRS). SDCERS’ prior actuary. Cheiron is not responsible for this information.
### SDCERS - City of San Diego

#### Aggregate Actuarial Liabilities for ($ in Thousands)

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Active Member Contributions</th>
<th>Retirees And Beneficiaries</th>
<th>Remaining Active Members' Liabilities</th>
<th>Reported Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/07</td>
<td>$482,526</td>
<td>$3,101,594</td>
<td>$2,013,532</td>
<td>$4,413,411</td>
</tr>
<tr>
<td>6/30/06</td>
<td>456,562</td>
<td>2,822,203</td>
<td>1,703,935</td>
<td>3,981,932</td>
</tr>
<tr>
<td>6/30/05</td>
<td>457,550</td>
<td>2,183,263</td>
<td>1,736,279</td>
<td>2,983,080</td>
</tr>
<tr>
<td>6/30/04</td>
<td>414,964</td>
<td>1,946,660</td>
<td>1,635,681</td>
<td>2,628,680</td>
</tr>
<tr>
<td>6/30/03</td>
<td>375,000</td>
<td>1,741,490</td>
<td>1,416,126</td>
<td>2,375,431</td>
</tr>
<tr>
<td>6/30/02</td>
<td>353,686</td>
<td>1,440,392</td>
<td>1,374,742</td>
<td>2,448,208</td>
</tr>
</tbody>
</table>

1. Actuarial Value of Assets. 2. Reflects contingent liabilities (Corbett pre-July 1, 2000 and 12th check), DROP reserves, supplemental COLA reserves, and IRC section 415 limits. 3. Estimated by Cheiron. The June 30, 2007 actuarial liability is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method. Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

#### Portion of Accrued Liabilities Covered by Reported Assets

<table>
<thead>
<tr>
<th>(A)</th>
<th>(B)</th>
<th>(C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100.00%</td>
<td>100.00%</td>
<td>41.19%</td>
</tr>
</tbody>
</table>

### SDCERS - Unified Port of San Diego

#### Aggregate Actuarial Liabilities for ($ in Thousands)

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Active Member Contributions</th>
<th>Retirees And Beneficiaries</th>
<th>Remaining Active Members' Liabilities</th>
<th>Reported Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/07</td>
<td>$18,374</td>
<td>$115,021</td>
<td>$113,143</td>
<td>$230,585</td>
</tr>
<tr>
<td>6/30/06</td>
<td>16,140</td>
<td>101,542</td>
<td>102,955</td>
<td>203,286</td>
</tr>
<tr>
<td>6/30/05</td>
<td>15,122</td>
<td>86,242</td>
<td>96,708</td>
<td>163,691</td>
</tr>
<tr>
<td>6/30/04</td>
<td>12,885</td>
<td>75,994</td>
<td>86,487</td>
<td>141,375</td>
</tr>
<tr>
<td>6/30/03</td>
<td>12,000</td>
<td>65,851</td>
<td>75,455</td>
<td>123,884</td>
</tr>
<tr>
<td>12/31/02</td>
<td>11,578</td>
<td>63,843</td>
<td>62,403</td>
<td>125,619</td>
</tr>
<tr>
<td>6/30/02</td>
<td>12,317</td>
<td>57,650</td>
<td>70,230</td>
<td>140,613</td>
</tr>
</tbody>
</table>

1. Actuarial Value of Assets. 2. Interim (mid-year) actuarial valuations performed due to split of San Diego County Regional Airport Authority from Unified Port District. 3. Reflects general benefit increases. 4. Reflects contingent liabilities (13th check), DROP reserves, and IRC section 415 limits. 5. Estimated by Cheiron. 6. The June 30, 2007 actuarial liability is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method. Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

#### Portion of Accrued Liabilities Covered by Reported Assets

<table>
<thead>
<tr>
<th>(A)</th>
<th>(B)</th>
<th>(C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100.00%</td>
<td>100.00%</td>
<td>85.90%</td>
</tr>
</tbody>
</table>

### SDCERS - Airport Authority

#### Aggregate Actuarial Liabilities for ($ in Thousands)

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Active Member Contributions</th>
<th>Retirees And Beneficiaries</th>
<th>Remaining Active Members' Liabilities</th>
<th>Reported Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/07</td>
<td>$6,681</td>
<td>$4,288</td>
<td>$35,668</td>
<td>$50,812</td>
</tr>
<tr>
<td>6/30/06</td>
<td>5,402</td>
<td>2,783</td>
<td>28,720</td>
<td>41,222</td>
</tr>
<tr>
<td>6/30/05</td>
<td>4,255</td>
<td>2,713</td>
<td>25,635</td>
<td>28,551</td>
</tr>
<tr>
<td>6/30/04</td>
<td>2,935</td>
<td>795</td>
<td>19,848</td>
<td>16,225</td>
</tr>
<tr>
<td>6/30/03</td>
<td>2,200</td>
<td>500</td>
<td>13,779</td>
<td>11,142</td>
</tr>
<tr>
<td>12/31/02</td>
<td>1,509</td>
<td>0</td>
<td>10,018</td>
<td>11,028</td>
</tr>
</tbody>
</table>

1. Actuarial Value of Assets. 2. Interim (mid-year) actuarial valuations performed due to split of San Diego County Regional Airport Authority from Unified Port District. 3. Reflects contingent liabilities (13th check), DROP reserves and IRC section 415 limits. 4. Estimated by Cheiron. 5. The June 30, 2007 actuarial liability is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method. Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.
## 8. Analysis of Financial Experience

### Gain and Loss in Accrued Liability During Years Ended June 30

Resulting from Differences Between Assumed Experience and Actual Experience

### Development of Gain/(Loss) SDCERS - City of San Diego

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Investment Income</th>
<th>Combined Liability Experience</th>
<th>Financial Experience Gain (or Loss)</th>
<th>Non-Recurring Gain (or Loss) Items</th>
<th>Composite Gain (or Loss) During Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2007</td>
<td>$74,938,588</td>
<td>$(39,748,777)</td>
<td>$35,189,811</td>
<td>$(225,348,741)</td>
<td>$(190,158,930)</td>
</tr>
<tr>
<td>6/30/2005</td>
<td>82,500,398</td>
<td>(457,24,516)</td>
<td>3677,582</td>
<td>(35,852,494)</td>
<td>923,388</td>
</tr>
<tr>
<td>6/30/2004</td>
<td>34,002,415</td>
<td>(92,125,989)</td>
<td>(58,123,574)</td>
<td>NA</td>
<td>(58,123,574)</td>
</tr>
<tr>
<td>6/30/2003</td>
<td>(286,400,000)</td>
<td>(17,299,305)</td>
<td>(303,699,305)</td>
<td>NA</td>
<td>(303,699,305)</td>
</tr>
</tbody>
</table>

### Development of Gain/(Loss) SDCERS - Unified Port District

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Investment Income</th>
<th>Combined Liability Experience</th>
<th>Financial Experience Gain (or Loss)</th>
<th>Non-Recurring Gain (or Loss) Items</th>
<th>Composite Gain (or Loss) During Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2007</td>
<td>$4,899,047</td>
<td>$(1,904,568)</td>
<td>$2,994,479</td>
<td>$(3,322,298)</td>
<td>$(327,819)</td>
</tr>
<tr>
<td>6/30/2005</td>
<td>3,062,374</td>
<td>(3,614,921)</td>
<td>(552,547)</td>
<td>(49,448)</td>
<td>(601,995)</td>
</tr>
<tr>
<td>6/30/2004</td>
<td>692,000</td>
<td>(2,762,000)</td>
<td>(2,070,000)</td>
<td>NA</td>
<td>(2,070,000)</td>
</tr>
<tr>
<td>6/30/2003</td>
<td>(8,150,891)</td>
<td>(2,097,544)</td>
<td>(10,248,435)</td>
<td>NA</td>
<td>(10,248,435)</td>
</tr>
<tr>
<td>12/31/2002</td>
<td>(10,878,574)</td>
<td>(218,531)</td>
<td>(11,097,105)</td>
<td>NA</td>
<td>(11,097,105)</td>
</tr>
</tbody>
</table>

### Development of Gain/(Loss) SDCERS - Airport Authority

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Investment Income</th>
<th>Combined Liability Experience</th>
<th>Financial Experience Gain (or Loss)</th>
<th>Non-Recurring Gain (or Loss) Items</th>
<th>Composite Gain (or Loss) During Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2007</td>
<td>$909,618</td>
<td>$266,769</td>
<td>$1,176,387</td>
<td>$(2,029,171)</td>
<td>$(852,784)</td>
</tr>
<tr>
<td>6/30/2006</td>
<td>5,886,918</td>
<td>2,845,946</td>
<td>8,732,864</td>
<td>(420,564)</td>
<td>8,312,300</td>
</tr>
<tr>
<td>6/30/2005</td>
<td>1,380,592</td>
<td>(2,588,040)</td>
<td>(1,207,448)</td>
<td>4,464,525</td>
<td>3,257,077</td>
</tr>
<tr>
<td>6/30/2004</td>
<td>560,000</td>
<td>(2,764,850)</td>
<td>(2,204,850)</td>
<td>NA</td>
<td>(2,204,850)</td>
</tr>
<tr>
<td>6/30/2003</td>
<td>(641,718)</td>
<td>(1,371,994)</td>
<td>(2,013,712)</td>
<td>NA</td>
<td>(2,013,712)</td>
</tr>
</tbody>
</table>

Results from 6/30/2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), SDCERS’ prior actuary. Cheiron is not responsible for this information.
San Diego City Employees’ Retirement System
Summary of June 30, 2007 Valuation Results (continued)


The following pages illustrate the various benefit provisions for the City’s, Port’s and Airport’s SDCERS participants. For a complete description of these benefits, please call SDCERS at (800) 774-4977 or (619) 525-3600 and request a Summary Plan Description.
**Actuarial Section**

**San Diego City Employees’ Retirement System**  
**Summary of SDCERS’ Benefit Provisions**  
**As of June 30, 2007**

### City of San Diego

<table>
<thead>
<tr>
<th>1. Membership Requirements</th>
<th>Membership is mandatory upon employment with the City, for all full, three-quarter, and half-time classified employees and any unclassified employees hired on or after 8/11/1993.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Monthly Base Salary for Benefits</td>
<td>Highest one-year average, subject to a 10% increase, if the General or Safety Member elects such increase in lieu of an increased benefit formula.</td>
</tr>
<tr>
<td>3. Service Retirement Eligibility</td>
<td>Age 62 with 10 years of service credit, or age 55 with 20 years of service credit.</td>
</tr>
<tr>
<td></td>
<td>Age 55 with 10 years of service credit, or age 50 with 20 years of service credit.</td>
</tr>
<tr>
<td></td>
<td>Age 55 with 4 years of service. Eligible to retire at any age with 8 years of service, however, benefit is reduced by 2% per year for each year under age 55.</td>
</tr>
<tr>
<td>Benefit Formula Per Year of Service</td>
<td>Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or, (3) 2.5% per year of service at age 55, and increasing to 2.8% at age 65, not to exceed 90% of Final Compensation.</td>
</tr>
<tr>
<td>General Members (Andrecht-Covered) (Applies to Airport only)</td>
<td>N/A</td>
</tr>
<tr>
<td>Executive General Members Port &amp; Airport only (where not specifically identified, treated as part of General Members)</td>
<td>N/A</td>
</tr>
<tr>
<td>Safety Members (City - Fire &amp; Police, Port - Harbor Police)</td>
<td>Choice of: (1) 2.5% per year of service at age 50, increasing to 2.9999% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or, (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation.</td>
</tr>
<tr>
<td>Safety Members (City - Lifeguard)</td>
<td>Choice of: (1) 2.2% at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation.</td>
</tr>
<tr>
<td>Elected Officers</td>
<td>3.5% per year of service. A 2% annual reduction factor applies to benefits for Elected Officers retiring prior to age 55.</td>
</tr>
</tbody>
</table>
### Actuarial Section

#### Unified Port of San Diego

<table>
<thead>
<tr>
<th>Membership is mandatory upon employment for all full-time Port employees.</th>
<th>Membership is mandatory upon employment for all full-time Airport employees.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest one-year average, subject to a 10% increase, if the General or Safety Member elects such increase in lieu of an increased benefit formula.</td>
<td>Highest one-year average, subject to a 10% increase, if the General or Safety Member elects such increase in lieu of an increased benefit formula.</td>
</tr>
<tr>
<td>Age 62 with 5 years of service credit, or age 55 with 20 years of service credit.</td>
<td>Age 62 with 5 years of service, or age 55 with 20 years of service.</td>
</tr>
<tr>
<td>Age 55 with 5 years of service credit, or age 50 with 20 years of service credit.</td>
<td>N/A</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

#### San Diego County Regional Airport Authority

<table>
<thead>
<tr>
<th>Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 3.0% at age 65, not to exceed 90% of Final Compensation.</th>
<th>Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 3.0% at age 65, not to exceed 90% of Final Compensation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective as of 12/21/2002, Service Retirement calculated at 3.0% at age 55 or older.</td>
<td>Effective as of 12/21/2002, Service Retirement calculated at 3.0% at age 55 or older.</td>
</tr>
<tr>
<td>Choice of: (1) 2.5% at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation.</td>
<td>N/A</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

N/A | N/A |

N/A | N/A |
### Retirement Payment Options

**City of San Diego**

**Choice of:**

**Maximum Benefit** - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide larger annuity benefit for the member.

**Option 1** - receive a reduced monthly retirement allowance until the member’s death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member’s beneficiary or estate.

**Option 2** - receive a reduced monthly retirement allowance until the member’s death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member’s reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

**Option 3** - receive a reduced monthly retirement allowance until the member’s death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member’s reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

**Option 4** - receive a reduced monthly retirement allowance until the member’s death. When the member dies, their beneficiary will receive a percentage of the member’s reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member’s monthly retirement allowance.

**Social Security Integrated Option** - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and are eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member’s death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement.
### Unified Port of San Diego

**Choice of:**

**Maximum Benefit** - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.

**Option 1** - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.

**Option 2** - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

**Option 3** - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

**Option 4** - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.

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### San Diego County Regional Airport Authority

**Choice of:**

**Maximum Benefit** - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.

**Option 1** - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.

**Option 2** - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

**Option 3** - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

**Option 4** - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.

**Social Security Integrated Option** - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and are eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement.
Actuarial Section

San Diego City Employees’ Retirement System
Summary of SDCERS Benefit Provisions (continued)
As of June 30, 2007

City of San Diego

4. Non-Industrial Disability

<table>
<thead>
<tr>
<th>Eligibility</th>
<th>Ten years of service credit.</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Members</td>
<td></td>
</tr>
</tbody>
</table>

**Benefit Formula Per Year of Service**

<table>
<thead>
<tr>
<th>General Members</th>
<th>Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety Members</td>
<td>Choice of: (1) 1.8% per year of service; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.</td>
</tr>
<tr>
<td>Elected Officers</td>
<td>Earned service retirement benefit.</td>
</tr>
</tbody>
</table>

5. Industrial Disability

<table>
<thead>
<tr>
<th>Eligibility</th>
<th>No age or service requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Members</td>
<td></td>
</tr>
</tbody>
</table>

**Benefit Formula Per Year of Service**

<table>
<thead>
<tr>
<th>General Members</th>
<th>Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety Members</td>
<td>Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.</td>
</tr>
<tr>
<td>Elected Officers</td>
<td>Earned service retirement benefit.</td>
</tr>
</tbody>
</table>

6. Non-Industrial Death Before Eligible to Retire

<table>
<thead>
<tr>
<th>Benefit Formula</th>
<th>Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.</th>
</tr>
</thead>
</table>

7. Non-Industrial Death After Eligible to Retire for Service

<table>
<thead>
<tr>
<th>Benefit Formula</th>
<th>50% of earned benefit payable to eligible surviving spouse.</th>
</tr>
</thead>
</table>

8. Industrial Death

<table>
<thead>
<tr>
<th>General Members</th>
<th>50% of the final compensation divided into 12 equal payments each year.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety Members</td>
<td>50% of the final compensation divided into 12 equal payments each year.</td>
</tr>
</tbody>
</table>

9. Death After Retirement

| Benefit Formula | Continuance to specified beneficiary based upon retirement payment option selected. $2,000 payable in lump-sum to the beneficiary or the estate of the retiree. |


<table>
<thead>
<tr>
<th>Benefit Formula</th>
<th>1. Less than ten years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. Ten or more years of service credit - If contributions are left on deposit, the member is entitled to earned benefits, commencing anytime after eligible to retire.</td>
</tr>
</tbody>
</table>
### Unified Port of San Diego

<table>
<thead>
<tr>
<th>Ten years of service credit.</th>
<th>Ten years of service credit.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.</td>
<td>Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. N/A</td>
</tr>
<tr>
<td>Choice of: (1) 1.8% per year of service; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>No age or service requirement.</td>
<td>No age or service requirement.</td>
</tr>
<tr>
<td>Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. N/A</td>
<td>Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. N/A</td>
</tr>
<tr>
<td>Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.</td>
<td>Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.</td>
</tr>
<tr>
<td>50% of earned benefit payable to eligible surviving spouse.</td>
<td>50% of earned benefit payable to eligible surviving spouse.</td>
</tr>
<tr>
<td>50% of the final compensation divided into 12 equal payments each year.</td>
<td>50% of the final compensation divided into 12 equal payments each year.</td>
</tr>
<tr>
<td>Continuance to specified beneficiary based upon retirement payment option selected. $2,000 payable in lump-sum to the beneficiary or the estate of the retiree.</td>
<td>Continuance to specified beneficiary based upon retirement payment option selected. $2,000 payable in lump-sum to the beneficiary or the estate of the retiree.</td>
</tr>
<tr>
<td>1. Less than five years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest.</td>
<td>1. Less than five years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest.</td>
</tr>
<tr>
<td>2. Five or more years of service credit - If contributions are left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.</td>
<td>2. Five or more years of service credit - If contributions are left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.</td>
</tr>
</tbody>
</table>
# Actuarial Section

## San Diego City Employees’ Retirement System

**Summary of SDCERS Benefit Provisions (continued)**

As of June 30, 2007

### City of San Diego

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11. Post-Retirement Cost-of-Living Benefits</td>
<td><strong>General Members</strong> Based on changes in Consumer Price Index, to a maximum of 2% per year. <strong>Safety Members</strong> Based on changes in Consumer Price Index, to a maximum of 2% per year.</td>
</tr>
<tr>
<td>12. Computed Plan Sponsor Contribution Rate</td>
<td>Determined by the Entry Age Normal Funding Method with a 20-year closed amortization of any Unfunded Actuarial Accrued Liability beginning on 7/1/2007. To avoid “negative amortization,” the minimum contribution will be Normal Cost plus full interest on the UAL.</td>
</tr>
<tr>
<td>13. Member Contributions</td>
<td>Vary by age at time of entrance into SDCERS. Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.</td>
</tr>
<tr>
<td>14. Internal Revenue Code Compliance</td>
<td>Benefits provided by SDCERS’ Plans are subject to the limitations set forth in Section 415 in accordance with the “grandfather” election in Section 415(b)(10) of the Internal Revenue Code.</td>
</tr>
<tr>
<td>Unified Port of San Diego</td>
<td>San Diego County Regional Airport Authority</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Based on changes in Consumer Price Index, to a maximum of 2% per year.</td>
<td>Based on changes in Consumer Price Index, to a maximum of 2% per year.</td>
</tr>
<tr>
<td>Based on changes in Consumer Price Index, to a maximum of 2% per year.</td>
<td>N/A</td>
</tr>
<tr>
<td>Vary by age at time of entrance into SDCERS. Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.</td>
<td>Vary by age at time of entrance into SDCERS. Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.</td>
</tr>
<tr>
<td>Benefits provided by SDCERS’ Plans are subject to the limitations set forth in Section 415 in accordance with the “grandfather” election in Section 415(b)(10) of the Internal Revenue Code.</td>
<td>Benefits provided by SDCERS’ Plans are subject to the limitations set forth in Section 415 in accordance with the “grandfather” election in Section 415(b)(10) of the Internal Revenue Code.</td>
</tr>
</tbody>
</table>
Deferred Retirement Option Plan (DROP)

The Deferred Retirement Option Plan (DROP) is a voluntary program created by SDCERS' plan sponsors to provide some SDCERS' members with an alternative method to accrue benefits in SDCERS. For actuarial valuation purposes, SDCERS' members entering DROP are considered “retired” the date they enter DROP.

A SDCERS' member's decision to enter DROP is irrevocable. If a SDCERS member participates in DROP, they will have access to a lump sum or annuity benefit in addition to his or her normal monthly retirement allowance when he or she retires. DROP was initially offered by SDCERS' sponsors on a trial basis for a three-year period ending March 31, 2000. It has since become a permanent retirement option. SDCERS' members are eligible to participate in DROP when they are eligible for a service retirement. A DROP participant continues to work for their respective plan sponsor and receives a regular paycheck. Both the plan sponsor and the DROP Participant no longer make retirement contributions to SDCERS, and the DROP participant stops earning creditable service. A DROP participant continues to receive most of the employer-offered benefits available to regular employees.

A SDCERS' member must select a retirement option when they enter DROP. If the DROP participant elects to leave a continuance to a beneficiary, the DROP participant must name a beneficiary at that time as well. The selection of a retirement option and the designation of a beneficiary for a continuance are irrevocable and cannot be changed once the first payment is made into a DROP account.

SDCERS' members electing to enter DROP must agree to participate in the program for a specific period of time, up to a maximum of 5 years; this specific time period cannot be modified once agreed to. A DROP participant must end employment with his or her plan sponsor on or before the end of the selected DROP participation period.

When a SDCERS member participates in DROP, a DROP account is set up for that individual. The money credited to a DROP account comes from six sources:

1. A DROP participant’s contributions – 3.05% of salary each pay period of participation in DROP (no employee contributions are made to SDCERS during this time);
2. The plan sponsor's contributions – 3.05% of salary each pay period of participation in DROP (no employee contributions are made to SDCERS during this time);
3. The DROP participant’s monthly retirement allowance, as determined when entering DROP;
4. The COLA (cost of living adjustment) increases to a monthly retirement allowance that occur while participating in DROP;
5. SDCERS' Supplemental Benefit (13th Check) payments made while participating in DROP; and
6. Interest credited to the DROP account each quarter, at the rate determined by SDCERS' Board.

The DROP benefit is the value of a DROP participant’s account at the end of the DROP participation period. It is available either in a lump sum or periodic distribution. Once a participant leaves DROP, the member begins receiving a monthly retirement allowance directly.

SDCERS will distribute the funds in a participant’s DROP account when the member leaves employment and begins retirement. The distribution is made as a single lump sum, periodic payments in 240 equal monthly payments, or as otherwise allowed by SDCERS' Board, subject to the applicable provisions of the Internal Revenue Code.
5. Statistical
## Statistical Section

### San Diego City Employees’ Retirement System

**Schedule of Additions to Plan Net Assets by Source** (continued)

For Fiscal Years Ended June 30

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Plan Sponsors’ Contributions</th>
<th>Members’ Contributions Paid By Plan Sponsors</th>
<th>Members’ Contributions for Service</th>
<th>Earned Interest on PSC Installment Contracts</th>
<th>DROP Contributions (plus Pension Allowances)</th>
<th>Net Investment Income</th>
<th>Other Income</th>
<th>Total Additions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$175,000,938</td>
<td>$20,216,479</td>
<td>$47,287,014</td>
<td>$7,262,118</td>
<td>$1,022,247</td>
<td>$251,289,907</td>
<td>$335,210</td>
<td>($165,901)</td>
</tr>
<tr>
<td>% of total</td>
<td>105.485.16%</td>
<td>12,185.87%</td>
<td>28,503.15%</td>
<td>4,377.38%</td>
<td>616.18%</td>
<td>-151,469.80%</td>
<td>202.05%</td>
<td>100.00%</td>
</tr>
<tr>
<td>2007</td>
<td>181,388,065</td>
<td>22,728,577</td>
<td>43,927,961</td>
<td>6,042,961</td>
<td>1,352,182</td>
<td>689,600,139</td>
<td>619,044</td>
<td>945,918,889</td>
</tr>
<tr>
<td>% of total</td>
<td>19.18</td>
<td>2.40</td>
<td>4.64</td>
<td>0.64</td>
<td>0.14</td>
<td>-151,469.80%</td>
<td>202.05%</td>
<td>100.00%</td>
</tr>
<tr>
<td>2006</td>
<td>282,770,428</td>
<td>23,632,010</td>
<td>32,959,653</td>
<td>9,645,793</td>
<td>1,825,921</td>
<td>455,726,222</td>
<td>15,500,000</td>
<td>822,060,027</td>
</tr>
<tr>
<td>% of total</td>
<td>34.40</td>
<td>2.87</td>
<td>4.01</td>
<td>1.17</td>
<td>0.22</td>
<td>55.44</td>
<td>1.89</td>
<td>100.00%</td>
</tr>
<tr>
<td>2005</td>
<td>145,238,133</td>
<td>33,988,447</td>
<td>18,859,980</td>
<td>49,339,098</td>
<td>1,583,235</td>
<td>350,209,486</td>
<td>-</td>
<td>599,218,379</td>
</tr>
<tr>
<td>% of total</td>
<td>24.24</td>
<td>5.67</td>
<td>3.15</td>
<td>8.23</td>
<td>0.26</td>
<td>-151,469.80%</td>
<td>-</td>
<td>100.00%</td>
</tr>
<tr>
<td>2004</td>
<td>87,861,650</td>
<td>33,951,427</td>
<td>16,299,464</td>
<td>75,419,976</td>
<td>907,014</td>
<td>537,166,172</td>
<td>-</td>
<td>751,636,685</td>
</tr>
<tr>
<td>% of total</td>
<td>11.69</td>
<td>4.52</td>
<td>2.17</td>
<td>10.03</td>
<td>0.12</td>
<td>-151,469.80%</td>
<td>-</td>
<td>100.00%</td>
</tr>
<tr>
<td>% of total</td>
<td>25.17</td>
<td>10.96</td>
<td>7.26</td>
<td>13.88</td>
<td>0.17</td>
<td>-151,469.80%</td>
<td>-</td>
<td>100.00%</td>
</tr>
<tr>
<td>2002</td>
<td>49,962,365</td>
<td>28,794,143</td>
<td>24,192,104</td>
<td>29,353,981</td>
<td>N/A</td>
<td>29,892,770</td>
<td>459,087</td>
<td>86,719,690</td>
</tr>
<tr>
<td>% of total</td>
<td>57.61</td>
<td>5.67</td>
<td>6.27</td>
<td>3.76</td>
<td>N/A</td>
<td>-151,469.80%</td>
<td>-</td>
<td>100.00%</td>
</tr>
<tr>
<td>2001</td>
<td>44,598,473</td>
<td>25,566,207</td>
<td>35,413,0892</td>
<td>N/A</td>
<td>N/A</td>
<td>28,303,009</td>
<td>371,123</td>
<td>109,125,819</td>
</tr>
<tr>
<td>% of total</td>
<td>40.87</td>
<td>23.43</td>
<td>32.45</td>
<td>N/A</td>
<td>N/A</td>
<td>-151,469.80%</td>
<td>-</td>
<td>100.00%</td>
</tr>
<tr>
<td>2000</td>
<td>40,001,210</td>
<td>24,271,821</td>
<td>28,874,7263</td>
<td>N/A</td>
<td>N/A</td>
<td>17,334,525</td>
<td>308,302</td>
<td>460,445,235</td>
</tr>
<tr>
<td>% of total</td>
<td>8.69</td>
<td>5.27</td>
<td>6.27</td>
<td>N/A</td>
<td>N/A</td>
<td>-151,469.80%</td>
<td>-</td>
<td>100.00%</td>
</tr>
<tr>
<td>1999</td>
<td>35,901,367</td>
<td>23,429,812</td>
<td>30,081,2414</td>
<td>N/A</td>
<td>N/A</td>
<td>11,770,221</td>
<td>290,335</td>
<td>281,046,914</td>
</tr>
<tr>
<td>% of total</td>
<td>12.73</td>
<td>8.31</td>
<td>10.67</td>
<td>N/A</td>
<td>N/A</td>
<td>-151,469.80%</td>
<td>-</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

1. Earned Interest on PSC Installment Contracts was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS’ independent auditor to conform with generally accepted accounting principles. In prior years, Earned Interest on PSC Installment Contracts was included in Members (Employees) Contributions for Purchased Service in the Statement of Changes in Plan Net Assets.


3. Amount includes an additional plan sponsor (employer) contribution made by the City of San Diego for a portion of their net pension obligation applicable to fiscal years 1997 - 2002, totaling $9,923,538. For further details concerning this additional plan sponsor (employer) contribution, please see the Schedules of Plan Sponsors’ (Employers’) Contributions and the Notes to Schedules of Plan Sponsors’ (Employers’) Contributions in the Required Supplementary Information located in the Financial Section.


5. Reflects restatement of DROP as a plan liability effective June 30, 2004 with June 30, 2003 restated.
### San Diego City Employees’ Retirement System
#### Schedule of Deductions from Plan Net Assets by Type (continued)

For Fiscal Years Ended June 30

| Fiscal Year | Retirement, Death and Disability Benefits | Health Insurance Payments¹ | Administrative Expenses | DROP Program Interest Expense¹ | Allowance for Uncollectable Purchased Service Payments¹ | Litigation Settlement Expense¹ | Refund of Members’ Contributions | Total Deductions |
|-------------|-------------------------------------------|----------------------------|-------------------------|-------------------------------|---------------------------------|-----------------------------|-------------------------------|----------------|-----------------|
| Dollars     |                                            |                            |                         |                               |                                  |                             |                               |                |                 |
| 2008        | $254,013,756                               | -                          | $15,776,346             | $23,050,681                   | -                                | -                           | $3,866,690                 | $296,707,473  |
| % of Total  | 85.61%                                     | -                          | 5.32%                   | 7.77%                         | -                                | -                           | 1.30%                       | 100.00         |
| Dollars     | 235,262,751                               | -                          | 19,103,956              | 20,263,468                    | -                                | -                           | 3,939,507                 | 278,023,121   |
| % of Total  | 84.62                                      | -                          | 6.87%                   | 7.29%                         | -                                | -                           | 1.22                       | 100.00         |
| Dollars     | 214,704,695                               | -                          | 18,438,356              | 17,746,612                    | -                                | -                           | 4,535,682                 | 259,987,322   |
| % of Total  | 82.58                                      | -                          | 7.09%                   | 6.83%                         | -                                | -                           | 1.74                       | 100.00         |
| Dollars     | 201,006,814                               | -                          | 7,910,366               | 11,960,392                    | $12,096                         | N/A                         | 2,802,986                 | 240,212,870   |
| % of Total  | 83.67                                      | -                          | 3.29%                   | 4.98%                         | 0.01                            | N/A                         | 1.17                       | 100.00         |
| Dollars     | 161,658,640                               | -                          | 8,822,138               | 10,163,263                    | 12,735,149                      | 244,704                     | 1,249,342                 | 200,899,860   |
| % of Total  | 80.43                                      | -                          | 5.59%                   | 5.06%                         | 5.52%                           | 0.12                        | 0.62                       | 1.05           | 100.00         |
| Dollars     | 146,398,141                               | -                          | 11,450,200              | 8,155,205                     | 9,218,281                       | 68,693                      | N/A                        | 1,378,787     | 176,667,307    |
| % of Total  | 82.86                                      | -                          | 7.88%                   | 4.98%                         | 5.22%                           | 0.04                        | 0.78                       | 100.00         |
| Dollars     | 141,037,774                               | -                          | 8,882,138               | 7,866,835                     | N/A                             | 147,913                     | N/A                        | 994,740        | 158,929,400    |
| % of Total  | 88.74                                      | -                          | 5.59%                   | 5.48%                         | N/A                             | 0.12                        | 0.63                       | 1.00           | 100.00         |
| Dollars     | 145,991,812                               | -                          | 7,279,578               | 6,279,578                     | N/A                             | N/A                         | N/A                        | 1,462,746     | 160,491,754    |
| % of Total  | 90.71                                      | -                          | 4.88%                   | 3.99%                         | N/A                             | N/A                         | N/A                        | 0.91           | 100.00         |
| Dollars     | 105,179,379                               | -                          | 5,413,222               | 5,835,241                     | N/A                             | N/A                         | N/A                        | 1,250,997     | 117,687,399    |
| % of Total  | 89.38                                      | -                          | 4.60%                   | 4.56%                         | N/A                             | N/A                         | N/A                        | 1.06           | 100.00         |
| Dollars     | 92,902,635                                | -                          | 5,400,246               | 3,235,667                     | N/A                             | N/A                         | N/A                        | 1,643,387     | 103,181,753    |
| % of Total  | 90.04                                      | -                          | 5.23%                   | 3.34%                         | N/A                             | N/A                         | N/A                        | 1.59           | 100.00         |

¹ Allowance for Uncollectable Purchased Service Payments was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS’ prior independent auditor. SDCERS current independent auditor approves of management’s practice to show purchased service receivables at gross values, since any contract cancellation reduces contract liability by an offsetting amount.

² Litigation Settlement Expense is SDCERS’ portion of the plaintiff’s attorney fee awarded as a result of the FY 2005 Gleason settlement and the Hanson, Bridgett settlement in FY 2006. For additional information on these expenses and the associated settlements, refer to Note 6. Legal Action in the Notes to the Financial Statements in the Financial Section.

³ A change in accounting treatment of DROP assets to report DROP as a plan liability was implemented in FY 2004 and applied retroactively to FY 2003. An analysis of the method for reporting plan liabilities under GASB 25 was performed, which led to a conclusion that it was preferable to report the DROP program as a liability, rather than as a component of plan net assets. As a result, DROP payments are now processed through the DROP liability account instead of through the Statement of Plan Net Assets and interest granted on DROP program balances as a deduction.

⁴ In FY 2005, the City started funding healthcare benefits directly by making contributions to a separate healthcare insurance fund for this plan.
Statistical Section

San Diego City Employees’ Retirement System
Comparison of Additions by Source and Deductions by Type
For Fiscal Years Ended June 30
San Diego City Employees’ Retirement System  
Comparison of Additions by Source and Deductions by Type (continued)  
For Fiscal Years Ended June 30

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Net Plan Assets All Plans</th>
<th>Additions All Plans</th>
<th>Additions as a % of Total Plan Net Assets</th>
<th>Deductions All Plans</th>
<th>Deductions as a % of Total Plan Net Assets</th>
<th>Additions as a % of Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$4,115,043,644</td>
<td>($165,901)</td>
<td>0.00%</td>
<td>$296,707,473</td>
<td>7.21%</td>
<td>-0.06%</td>
</tr>
<tr>
<td>2007</td>
<td>4,681,720,460</td>
<td>945,918,889</td>
<td>20.20%</td>
<td>278,023,121</td>
<td>5.94%</td>
<td>340.23</td>
</tr>
<tr>
<td>2006</td>
<td>4,013,824,692</td>
<td>822,060,027</td>
<td>20.48%</td>
<td>259,987,322</td>
<td>6.48%</td>
<td>316.19</td>
</tr>
<tr>
<td>2005</td>
<td>3,451,751,987</td>
<td>599,218,379</td>
<td>17.36%</td>
<td>240,212,870</td>
<td>6.96%</td>
<td>249.45</td>
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<tr>
<td>2004</td>
<td>3,092,746,478</td>
<td>751,636,685</td>
<td>24.30%</td>
<td>200,989,860</td>
<td>6.50%</td>
<td>373.97</td>
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<tr>
<td>2002</td>
<td>2,527,890,311</td>
<td>86,719,690</td>
<td>3.43%</td>
<td>158,929,400</td>
<td>6.29%</td>
<td>54.56</td>
</tr>
<tr>
<td>2001</td>
<td>2,599,281,332</td>
<td>109,125,819</td>
<td>4.20%</td>
<td>160,941,754</td>
<td>6.19%</td>
<td>67.80</td>
</tr>
<tr>
<td>2000</td>
<td>2,652,492,234</td>
<td>460,445,235</td>
<td>17.36%</td>
<td>117,678,839</td>
<td>4.44%</td>
<td>391.27</td>
</tr>
<tr>
<td>1999</td>
<td>2,309,725,838</td>
<td>281,946,914</td>
<td>12.21%</td>
<td>103,181,753</td>
<td>4.47%</td>
<td>273.25</td>
</tr>
</tbody>
</table>

1 A change in accounting treatment of DROP assets to report DROP as a plan liability was implemented in FY 2004 and applied retroactively to FY 2003. An analysis of the method for reporting plan liabilities under GASB 25 was performed, which led to a conclusion that it was preferable to report the DROP program as a liability, rather than as a component of plan net assets. As a result, DROP contributions and payments are now processed through the DROP liability account instead of through the Statement of Plan Net Assets and interest granted on DROP program balances as a deduction.
### San Diego City Employees’ Retirement System

#### Schedule of Allowances Being Paid

**Service and Disability Retirees and Beneficiaries**

**As of Years Ended June 30**

<table>
<thead>
<tr>
<th>No. of Allowances</th>
<th>Fiscal Year</th>
<th>Total Service Retirements</th>
<th>Total Disability Retirements</th>
<th>Total Deaths Before Retirement</th>
<th>Total Deaths After Retirement</th>
<th>Total Allowances Being Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td></td>
<td>4,354</td>
<td>1,245</td>
<td>28</td>
<td>1,052</td>
<td>6,679</td>
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<tr>
<td></td>
<td></td>
<td>$187,827,706</td>
<td>$33,422,130</td>
<td>$605,485</td>
<td>$12,306,821</td>
<td>$234,162,142</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>4,118</td>
<td>1,237</td>
<td>29</td>
<td>1,017</td>
<td>6,401</td>
</tr>
<tr>
<td></td>
<td></td>
<td>170,186,825</td>
<td>31,992,059</td>
<td>594,020</td>
<td>10,974,416</td>
<td>213,747,320</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td>3,728</td>
<td>1,239</td>
<td>30</td>
<td>998</td>
<td>5,995</td>
</tr>
<tr>
<td></td>
<td></td>
<td>141,153,674</td>
<td>29,094,290</td>
<td>568,576</td>
<td>9,372,487</td>
<td>180,189,027</td>
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<tr>
<td>2004</td>
<td></td>
<td>3,480</td>
<td>1,247</td>
<td>31</td>
<td>965</td>
<td>5,723</td>
</tr>
<tr>
<td></td>
<td></td>
<td>123,675,151</td>
<td>28,351,092</td>
<td>588,900</td>
<td>8,679,475</td>
<td>161,294,618</td>
</tr>
<tr>
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<td>3,260</td>
<td>1,239</td>
<td>30</td>
<td>938</td>
<td>5,467</td>
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<tr>
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<td></td>
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<td>27,164,406</td>
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<td>7,771,772</td>
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<td>811</td>
<td>5,143</td>
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<td></td>
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<td>25,716,957</td>
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<td>5,908,340</td>
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<td>23,253,156</td>
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<tr>
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<td>2,673</td>
<td>1,181</td>
<td>38</td>
<td>765</td>
<td>4,657</td>
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<tr>
<td></td>
<td></td>
<td>60,775,471</td>
<td>21,753,769</td>
<td>457,814</td>
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<td>44</td>
<td>735</td>
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<tr>
<td></td>
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<td>51,843,793</td>
<td>19,846,719</td>
<td>508,597</td>
<td>4,308,071</td>
<td>76,507,180</td>
</tr>
</tbody>
</table>

1 The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations as of December 31, 2002, were performed to reflect the two separate agencies (plan sponsors). All retirees remained with the Port as of December 31, 2002; therefore, no allowances were paid on behalf of the Airport.

2 Total Deaths Before Retirement represents one-time payments to members’ beneficiaries and refund of members’ contributions, plus interest.
### Unified Port of San Diego

<table>
<thead>
<tr>
<th>No. of Allowances</th>
<th>Fiscal Year</th>
<th>Total Service Retirements</th>
<th>Total Disability Retirements</th>
<th>Total Deaths Before Retirement</th>
<th>Total Deaths After Retirement</th>
<th>Total Allowances Being Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td></td>
<td>233</td>
<td>61</td>
<td>1</td>
<td>54</td>
<td>349</td>
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<tr>
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<td>10,970</td>
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<td>59,786,344</td>
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<td>325</td>
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<td>8,731,137</td>
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<td>1,054,400</td>
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<td>359,284</td>
<td>5,259,915</td>
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<td>17,530</td>
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<td>17,128</td>
<td>188,904</td>
<td>3,610,345</td>
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</table>
### Statistical Section

**San Diego City Employees’ Retirement System**  
**Schedule of Allowances Being Paid**  
**Service and Disability Retirees and Beneficiaries (continued)**  
As of Years Ended June 30

<table>
<thead>
<tr>
<th>San Diego County Regional Airport Authority¹</th>
<th>As of Fiscal Year</th>
<th>Total Service Retirements</th>
<th>Total Disability Retirements</th>
<th>Total Deaths Before Retirement</th>
<th>Total Deaths After Retirement</th>
<th>Total Allowances Being Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Allowances</td>
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<td>-</td>
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<td>Annual Allowances</td>
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<tr>
<td>No. of Allowances</td>
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<td>-</td>
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<tr>
<td>Annual Allowances</td>
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<tr>
<td>No. of Allowances</td>
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<td>-</td>
<td>-</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Annual Allowances</td>
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<td>220,945</td>
<td>-</td>
<td>-</td>
<td>220,945</td>
<td></td>
</tr>
<tr>
<td>No. of Allowances</td>
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<td>-</td>
<td>-</td>
<td>3</td>
<td></td>
</tr>
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<td>Annual Allowances</td>
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<td>71,779</td>
<td>-</td>
<td>-</td>
<td>71,779</td>
<td></td>
</tr>
<tr>
<td>No. of Allowances</td>
<td>2003</td>
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<td>-</td>
<td>-</td>
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<td></td>
</tr>
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<td>Annual Allowances</td>
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<td>25,112</td>
<td>-</td>
<td>-</td>
<td>25,112</td>
<td></td>
</tr>
</tbody>
</table>

¹ The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations as of December 31, 2002, were performed to reflect the two separate agencies (plan sponsors. All retirees remained with the Port as of December 31, 2002; therefore, no allowances were paid on behalf of the Airport.
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### Statistical Section

#### San Diego City Employees’ Retirement System

**Schedule of Average Benefit Payment Amounts**

**As of Years Ended June 30**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
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</thead>
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<td>15.37%</td>
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1 San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations were performed as of December 31, 2002, to reflect the two separate agencies. As of December 31, 2002, the Airport had no retirees or beneficiaries receiving benefits; all retirees and beneficiaries are counted as retiring from the Port as of the date of this actuarial valuation.

2 Retirees only (including DROP participants); beneficiaries excluded.

3 Prior to Andrecht Settlement; $18,907 average annual allowance after 7% Andrecht increase.
**Statistical Section**

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<td>22.07%</td>
<td>6.91%</td>
<td>17.30%</td>
<td>N/A</td>
<td>10.38%</td>
<td>3.34%</td>
<td>58.22%</td>
<td>47.75%</td>
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</table>

**SDCERS Comprehensive Annual Financial Report 2008** 151
**Statistical Section**

**San Diego City Employees’ Retirement System**

**Schedule of Active Members**

*As of Years Ended June 30*

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### City of San Diego

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1. The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations were performed as of December 31, 2002, to reflect the two separate agencies.

2. Actuarial valuations include purchased service credit from June 30, 2002 forward.
### Unified Port of San Diego¹

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### County Regional Airport Authority¹

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¹ Source: SDCERS Comprehensive Annual Financial Report 2008
### Statistical Section

#### San Diego City Employees' Retirement System

**Schedule of Inactive Members**

As of Years Ended June 30

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<td><strong>Total Members</strong></td>
<td>2,606</td>
<td>2,359</td>
<td>1,998</td>
<td>1,884</td>
<td>1,723</td>
<td>1,499</td>
<td>1,016</td>
<td>800</td>
<td>791</td>
<td>1,335</td>
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</tbody>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Inactive Members</strong></td>
<td>$90,347,344</td>
<td>$71,328,108</td>
<td>$50,420,350</td>
<td>$31,484,749</td>
<td>$25,808,549</td>
<td>$23,501,628</td>
<td>$18,620,827</td>
<td>$12,244,598</td>
<td>$12,281,289</td>
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<tr>
<td><strong>Other Members</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>19,829,472</td>
</tr>
<tr>
<td><strong>Total Contribution Balances</strong></td>
<td>$90,347,344</td>
<td>$71,328,108</td>
<td>$50,420,350</td>
<td>$31,484,749</td>
<td>$25,808,549</td>
<td>$23,501,628</td>
<td>$18,620,827</td>
<td>$12,244,598</td>
<td>$32,110,761</td>
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</table>

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Member Age</strong></td>
<td>43.8</td>
<td>43.6</td>
<td>44.1</td>
<td>43.7</td>
<td>43.7</td>
<td>43.1</td>
<td>42.9</td>
<td>44.3</td>
<td>43.1</td>
<td>42.6</td>
</tr>
<tr>
<td><strong>Service Years Earned</strong></td>
<td>7.7</td>
<td>7.4</td>
<td>7.0</td>
<td>6.7</td>
<td>6.4</td>
<td>6.6</td>
<td>6.8</td>
<td>7.5</td>
<td>6.6</td>
<td>7.4</td>
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<tr>
<td><strong>Contribution Balance</strong></td>
<td>$34,669</td>
<td>$30,237</td>
<td>$25,235</td>
<td>$20,728</td>
<td>$18,073</td>
<td>$17,217</td>
<td>$16,343</td>
<td>$10,328</td>
<td>$15,306</td>
<td>$15,526</td>
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</table>

1 Inactive members are former active members of SDCERS who have left employment of the plan sponsor and have contributions still on deposit with SDCERS. Inactive SDCERS' members may or may not be vested to receive a retirement benefit in the future.

2 San Diego County Regional Airport Authority was established effective as of January 1, 2003 from the Unified Port of San Diego (Port); interim actuarial valuations were performed to reflect the two separate employers. All inactive SDCERS members remained with the Port as of December 31, 2002; therefore, all contributions for inactive Port SDCERS members remained with the Port.

3 Other Members may include withdrawals (refunds), deaths, disabilities, and service retirements, which are in transition.

4 Actuarial valuations include purchased service credit from June 30, 2002 forward.
### Statistical Section

<table>
<thead>
<tr>
<th>Unified Port of San Diego²</th>
<th>San Diego County Regional Airport Authority²</th>
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</thead>
<tbody>
<tr>
<td>---------------------------</td>
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</tr>
<tr>
<td>254 261 250 228 194 186 196 163 142 99 91</td>
<td>52 45 26 12 7</td>
</tr>
<tr>
<td>254 261 250 228 194 186 196 163 142 99 128</td>
<td>52 45 26 12 7</td>
</tr>
<tr>
<td>$3,345,129 $3,909,366 $3,355,126 $2,252,989 $1,348,216 $1,235,981 $1,276,922 $1,135,633 $938,416 $631,050 $547,632</td>
<td>$736,406 $597,226 $293,263 $47,659 $9,808</td>
</tr>
<tr>
<td>$3,345,129 $3,909,366 $3,355,126 $2,252,989 $1,348,216 $1,235,981 $1,276,922 $1,135,633 $938,416 $631,050 $1,940,416</td>
<td>$736,406 $597,226 $293,263 $47,659 $9,808</td>
</tr>
<tr>
<td>46.1 46.2 45.6 44.7 44.7 43.9 43.4 44.2 41.6 42.6 41.5</td>
<td>47.6 46.6 47.5 45.3 45.9</td>
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<tr>
<td>4.6 5.1 4.8 4.5 3.9 4.1 4.1 4.3 3.7 3.6 4.1</td>
<td>4.3 4.1 4.1 3.3 0.9</td>
</tr>
<tr>
<td>$13,170 $14,978 $13,421 $9,882 $6,950 $6,645 $6,515 $6,967 $6,609 $6,374 $6,238</td>
<td>$14,162 $13,272 $9,356 $3,972 $1,401</td>
</tr>
</tbody>
</table>

*Note: ² Data for Unified Port of San Diego and San Diego County Regional Airport Authority.*
San Diego City Employees’ Retirement System
Schedule of Participating Plan Sponsors

City of San Diego
202 C Street
San Diego, CA 92101-3860
(619) 236-5555
www.sandiego.gov

Unified Port of San Diego
3165 Pacific Highway
San Diego, CA 92101-1128
(619) 686-6200
www.portofsandiego.org

San Diego County Regional Airport Authority
3225 North Harbor Drive
San Diego, CA 92101-1022
(619) 400-2400
www.san.org